



DEPARTMENT OF THE NAVY

GENERAL FUND PRINCIPAL STATEMENTS



PRINCIPAL STATEMENTS

The FY 2003 Department of the Navy, General Fund Principal Financial Statements and related notes are presented in the format prescribed by the Department of Defense Financial Management Regulation 7000.14, Volume 6B. The statements and related notes summarize financial information for individual funds and accounts within the General Fund for the fiscal year ending September 30, 2003, and are presented on a comparative basis with information previously reported for the fiscal year ending September 30, 2002.

The following statements are included in the Department of the Navy, General Fund Principal Statements:

- Consolidated Balance Sheet
- Consolidated Statement of Net Cost
- Consolidated Statement of Changes in Net Position
- Combined Statement of Budgetary Resources
- Combined Statement of Financing

The Principal Statements and related notes have been prepared to report financial position pursuant to the requirements of the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994.

The accompanying notes should be considered an integral part of the Principal Statements.





Department of Defense
 Department of the Navy
CONSOLIDATED BALANCE SHEET
 As of September 30, 2003 and 2002
 (\$ in thousands)

	<u>2003 Consolidated</u>	<u>2002 Consolidated</u>
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)		
Entity	\$ 78,191,653	\$ 67,999,880
Non-Entity Seized Iraqi Cash	0	0
Non-Entity - Other	223,225	250,075
Investments (Note 4)	9,801	9,625
Accounts Receivable (Note 5)	496,863	742,467
Other Assets (Note 6)	187,865	67,081
Total Intragovernmental Assets	<u>\$ 79,109,407</u>	<u>\$ 69,069,128</u>
Cash and Other Monetary Assets (Note 7)	\$ 282,995	\$ 130,664
Accounts Receivable (Note 5)	3,382,133	2,799,887
Loans Receivable (Note 8)	0	0
Inventory and Related Property (Note 9)	53,611,634	33,003,595
General Property, Plant and Equipment (Note 10)	158,407,450	26,109,437
Investments (Note 4)	0	0
Other Assets (Note 6)	6,180,624	4,780,462
TOTAL ASSETS	<u><u>\$ 300,974,243</u></u>	<u><u>\$ 135,893,173</u></u>
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	\$ 1,035,033	\$ 748,279
Debt (Note 13)	0	127
Environmental Liabilities (Note 14)	0	0
Other Liabilities (Note 15 & Note 16)	3,859,913	3,489,503
Total Intragovernmental Liabilities	<u>\$ 4,894,946</u>	<u>\$ 4,237,909</u>
Accounts Payable (Note 12)	\$ 1,742,522	\$ 1,510,329
Military Retirement Benefits and Other Employment-Related		
Actuarial Liabilities (Note 17)	1,589,971	1,546,375
Environmental Liabilities (Note 14)	15,614,424	15,469,073
Loan Guarantee Liability (Note 8)	0	0
Other Liabilities (Note 15 and Note 16)	3,785,962	4,185,487
Debt Held by Public (Note 13)	0	0
TOTAL LIABILITIES	<u><u>\$ 27,627,825</u></u>	<u><u>\$ 26,949,173</u></u>
NET POSITION		
Unexpended Appropriations (Note 18)	\$ 50,781,179	\$ 64,774,328
Cumulative Results of Operations	222,565,239	44,169,672
TOTAL NET POSITION	<u><u>\$ 273,346,418</u></u>	<u><u>\$ 108,944,000</u></u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 300,974,243</u></u>	<u><u>\$ 135,893,173</u></u>

The accompanying notes are an integral part of these statements.

Department of Defense
 Department of the Navy
CONSOLIDATED STATEMENT OF NET COST
 For the years ended September 30, 2003 and 2002
 (\$ in thousands)

	<u>2003 Consolidated</u>	<u>2002 Consolidated</u>
Program Costs		
Intragovernmental Gross Costs	\$ 35,142,574	\$ 29,911,090
(Less: Intragovernmental Earned Revenue)	(3,186,968)	(1,209,933)
Intragovernmental Net Costs	<u>\$ 31,955,606</u>	<u>\$ 28,701,157</u>
Gross Costs With the Public	\$ 81,168,783	\$ 75,636,020
(Less: Earned Revenue From the Public)	(1,919,696)	(1,721,649)
Net Costs With the Public	<u>\$ 79,249,087</u>	<u>\$ 73,914,371</u>
Total Net Cost	\$ 111,204,693	\$ 102,615,528
Costs Not Assigned to Programs	0	0
(Less: Earned Revenue Not Attributable to Programs)	0	0
Net Cost of Operations	<u><u>\$ 111,204,693</u></u>	<u><u>\$ 102,615,528</u></u>

The accompanying notes are an integral part of these statements.





Department of Defense
 Department of the Navy
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 For the years ended September 30, 2003 and 2002
 (\$ in thousands)

	<u>2003 Consolidated</u>	<u>2002 Consolidated</u>
Cumulative Results of Operations		
Beginning Balances	\$ 44,169,672	\$ 46,641,359
Prior period adjustments (+/-)	152,557,286	0
Beginning Balances, as adjusted	<u>\$ 196,726,958</u>	<u>\$ 46,641,359</u>
Budgetary Financing Sources:		
Appropriations Received	\$ 0	\$ 0
Appropriations transferred in/out (+/-)	0	0
Other adjustments (recissions, etc) (+/-)	0	0
Appropriations used	136,481,490	99,612,675
Nonexchange revenue	0	0
Donations and forfeitures of cash and cash equivalents	0	0
Transfers in/out without reimbursement (+/-)	0	0
Other budgetary financing sources (+/-)	0	0
Other Financing Sources:		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	51,765	5,871
Imputed financing from costs absorbed by others	509,719	525,294
Other (+/-)	0	0
Total Financing Sources	<u>\$ 137,042,974</u>	<u>\$ 100,143,840</u>
Net Cost of Operations (+/-)	<u>\$ 111,204,693</u>	<u>\$ 102,615,527</u>
Ending Balances	<u><u>\$ 222,565,239</u></u>	<u><u>\$ 44,169,672</u></u>

The accompanying notes are an integral part of these statements.

Department of Defense
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CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the years ended September 30, 2003 and 2002

(\$ in thousands)

	<u>2003 Consolidated</u>	<u>2002 Consolidated</u>
Unexpended Appropriations		
Beginning Balances	\$ 64,774,328	\$ 63,535,842
Prior period adjustments (+/-)	0	0
Beginning Balances, as adjusted	<u>\$ 64,774,328</u>	<u>\$ 63,535,842</u>
Budgetary Financing Sources:		
Appropriations Received	\$ 122,132,688	\$ 99,524,458
Appropriations transferred in/out (+/-)	1,810,288	2,727,308
Other adjustments (recissions, etc) (+/-)	(1,454,635)	(1,363,575)
Appropriations used	(136,481,490)	(99,649,705)
Nonexchange revenue	0	0
Donations and forfeitures of cash and cash equivalents	0	0
Transfers in/out without reimbursement (+/-)	0	0
Other budgetary financing sources (+/-)	0	0
Other Financing Sources:		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	0	0
Imputed financing from costs absorbed by others	0	0
Other (+/-)	0	0
Total Financing Sources	<u>\$ (13,993,149)</u>	<u>\$ 1,238,486</u>
Net Cost of Operations (+/-)	<u>\$ 0</u>	<u>\$ 0</u>
Ending Balances	<u><u>\$ 50,781,179</u></u>	<u><u>\$ 64,774,328</u></u>

The accompanying notes are an integral part of these statements.



Department of Defense
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COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the years ended September 30, 2003 and 2002
 (\$ in thousands)

	2003 Combined Budgetary Financing Accounts	2002 Combined Budgetary Financing Accounts
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:		
Obligated Balance, Net-beginning of period	\$ 56,100,186	\$ 52,333,850
Obligated Balance transferred, net (+/-)	0	0
Obligated Balance, net-end of period:		
Accounts Receivable	(897,842)	(2,109,374)
Unfilled customer order from Federal sources	(2,335,476)	(2,027,193)
Undelivered Orders	63,419,000	55,633,755
Accounts Payable	3,335,212	4,603,000
Outlays:		
Disbursements	119,051,033	105,540,310
Collections	(6,732,714)	(6,491,249)
Subtotal	<u>\$ 112,318,319</u>	<u>\$ 99,049,061</u>
Less: Offsetting receipts	(246,802)	(213,345)
Net Outlays	<u><u>\$ 112,071,517</u></u>	<u><u>\$ 98,835,716</u></u>

The accompanying notes are an integral part of these statements.





Department of Defense
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COMBINED STATEMENT OF FINANCING
 For the years ended September 30, 2003 and 2002
 (\$ in thousands)

	<u>2003 Combined</u>	<u>2002 Combined</u>
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 132,577,831	\$ 111,516,546
Less: Spending Authority from offsetting collections and recoveries (-)	(12,838,803)	(8,701,148)
Obligations net of offsetting collections and recoveries	<u>\$ 119,739,028</u>	<u>\$ 102,815,398</u>
Less: Offsetting receipts (-)	(246,802)	(213,345)
Net obligations	<u>\$ 119,492,226</u>	<u>\$ 102,602,053</u>
Other Resources		
Donations and forfeitures of property	0	0
Transfers in/out without reimbursement (+/-)	51,765	0
Imputed financing from costs absorbed by others	509,719	525,294
Other (+/-)	0	0
Net other resources used to finance activities	<u>\$ 561,484</u>	<u>\$ 525,294</u>
Total resources used to finance activities	<u>\$ 120,053,710</u>	<u>\$ 103,127,347</u>
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided		
Undelivered orders (-)	\$ (3,213,420)	\$ (10,676,267)
Unfilled Customer Orders	248,440	187,805
Resources that fund expenses recognized in prior periods	(31,284)	(620,162)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	0	0
Resources that finance the acquisition of assets	(26,444,222)	7,487,846
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations		
Less: Trust or Special Fund receipts related to exchange in the entity's budget (-)	0	0
Other (+/-)	0	0
Total resources used to finance items not part of the Net Cost of Operations	<u>\$ (29,440,486)</u>	<u>\$ (3,620,778)</u>
Total resources used to finance the Net Cost of Operations	<u>\$ 90,613,224</u>	<u>\$ 99,506,569</u>

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Department of Defense
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COMBINED STATEMENT OF FINANCING
 For the years ended September 30, 2003 and 2002
 (\$ in thousands)

	<u>2003 Combined</u>	<u>2002 Combined</u>
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in annual leave liability	\$ 0	\$ 263,070
Increase in environmental and disposal liability	0	595,543
Upward/Downward reestimates of credit subsidy expense	0	0
Increase in exchange revenue receivable from the public (-)	0	0
Other (+/-)	428,344	117,595
Total components of Net Cost of Operations that will require or generate resources in future periods	\$ 428,344	\$ 976,208
Components not Requiring or Generating Resources:		
Depreciation and amortization	\$ 16,936,476	\$ 916,360
Revaluation of assets and liabilities (+/-)	3,203,729	(1,684,365)
Other (+/-)	22,920	2,900,757
Total components of Net Cost of Operations that will not require or generate resources	\$ 20,163,125	\$ 2,132,752
Total components of Net Cost of Operations that will not require generate resources in the current period	\$ 20,591,469	\$ 3,108,960
Net Cost of Operations	\$ 111,204,693	\$ 102,615,529

The accompanying notes are an integral part of these statements.







DEPARTMENT OF THE NAVY

GENERAL FUND NOTES TO THE PRINCIPAL STATEMENTS



NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation.

These financial statements have been prepared to report the financial position and results of operations of the Department of the Navy (DON), as required by the "Chief Financial Officers (CFO) Act of 1990," expanded by the "Government Management Reform Act (GMRA) of 1994," and other appropriate legislation. The financial statements have been prepared from the books and records of the DON in accordance with the "Department of Defense Financial Management Regulation" (DoD FMR), the Office of Management and Budget (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements," and to the extent possible, Federal Generally Accepted Accounting Principles (GAAP). The accompanying financial statements account for all resources for which the DON is responsible except that information relative to classified assets, programs, and operations has been excluded from the statement or otherwise aggregated and reported in such a manner that it is no longer classified. The DON's financial statements are in addition to the financial reports also prepared by the DON pursuant to OMB directives that are used to monitor and control the DON's use of budgetary resources.

The DON is unable to fully implement all elements of Federal GAAP and the OMB Bulletin No. 01-09 due to limitations of its financial management processes and systems, including nonfinancial feeder systems and processes. Reported values and information for the DON's major asset and liability categories are derived largely from nonfinancial feeder systems, such as inventory systems and logistic systems. These systems were designed to support reporting requirements focusing on maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with Federal GAAP. As a result, the DON cannot currently implement every aspect of Federal GAAP and OMB Bulletin No. 01-09. The DON continues to implement process and system improvements addressing the limitation of its financial and nonfinancial feeder systems. A more detailed explanation of these financial statement elements is provided in the applicable note.

Fiscal Year (FY) 2003 represents the eighth year that the DON has prepared audited financial statements as required by the CFO Act and the GMRA.

B. Mission of the Reporting Entity.

The DON was created on April 30, 1798 by an act of Congress (1 Stat. 533; 5 U.S.C. 411-12). The overall mission of DoD, as stated in the FY 2002 Annual Defense Report is to assure allies and friends, dissuade future military competition, deter threats and coercion against U.S. interests, and defeating adversaries if deterrence fails.

C. Appropriations and Funds.

The DON's appropriations and funds are divided into the general, revolving funds, trust, special, and deposit funds. These appropriations and funds are used to fund and report how the resources have been used in the course of executing the DON's missions.

- General funds are used for financial transactions arising under Congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and construction accounts.
- Revolving funds receive their initial working capital through an appropriation or a transfer of resources from existing appropriations or funds and use those capital resources to finance the initial cost of products and services. Financial resources to replenish the initial working capital and to permit continuing operations are generated by the acceptance of customer orders. The National Defense Sealift Fund is the DON's only revolving fund.
- Trust funds represent the receipt and expenditure of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute.
- Special funds account for receipts of the government that are earmarked for a specific purpose.
- Deposit funds generally are used to (1) hold assets for which the DON is acting as an agent or a custodian or whose distribution awaits legal determination, or (2) account for unidentified remittances.

The asset accounts used to prepare the statements are categorized as either entity or nonentity. Entity accounts consist of resources that the agency has the authority to use, or where management is legally obligated to use funds to meet entity obligations. Nonentity accounts are assets that are held by an entity but are not available for use in the operations of the entity.

Entity Accounts:

General Funds

17X0380	Coastal Defense Augmentation, Navy
17 0703	Family Housing Construction, Navy and Marine Corps
17 0735	Family Housing, Navy and Marine Corps (Operations and Maintenance)
17X0810	Environmental Restoration, Navy
17 1105	Military Personnel, Marine Corps
17 1106	Operation and Maintenance, Marine Corps
17 1107	Operation and Maintenance, Marine Corps Reserve
17 1108	Reserve Personnel, Marine Corps
17 1109	Procurement, Marine Corps
17 1205	Military Construction, Navy
17 1235	Military Construction, Naval Reserve
17X1236	Payments to Kaho Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
17 1319	Research, Development, Test, and Evaluation, Navy
17 1405	Reserve Personnel, Navy
17 1453	Military Personnel, Navy
17 1506	Aircraft Procurement, Navy
17 1507	Weapons Procurement, Navy
17 1508	Procurement of Ammunition, Navy and Marine Corps
17 1611	Shipbuilding and Conversion, Navy
17 1804	Operation and Maintenance, Navy
17 1806	Operation and Maintenance, Navy Reserve
17 1810	Other Procurement, Navy

Revolving funds

17 4557	National Defense Sealift Fund, Navy
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Trust funds

17X8716	Department of the Navy General Gift Fund
17X8723	Ship Stores Profits, Navy
17X8733	United States Naval Academy Gift and Museum Fund

Special funds

17X5095	Wildlife Conservation, etc., Military Reservations, Navy
17X5185	Kaho Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
17X5429	Rossmoor Liquidating Trust Settlement Account

Non Entity Accounts:

Special funds (Receipt Accounts)

17 3041	Recoveries Under the Foreign Military Sales Program
17 3210	General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified



**Deposit funds**

17X6001	Proceeds of Sales of Lost, Abandoned, or Unclaimed Personal Property, Navy
17X6002	Personal Funds of Deceased, Mentally Incompetent or Missing Personnel, Navy
17X6025	Pay of the Navy, Deposit Fund
17X6026	Pay of the Marine Corps
17X6050	Employee Payroll Allotment Account (U.S. Bonds)
17X6075	Withheld Allotment of Compensation for Payment of Employee Organization Dues, Navy
17X6083	Withheld Allotment of Compensation for Charitable Contributions, Navy
17X6134	Amounts Withheld for Civilian Pay Allotments, Navy
17X6275	Withheld State and Local Income Taxes
17X6434	Servicemen's Group Life Insurance Fund, Suspense, Navy
17X6705	Civilian Employees Allotment Account, Navy
17X6706	Commercial Communication Service, Navy
17 6763	Gains and Deficiencies on Exchange Transactions, Navy (fiscal year)
17X6850	Housing Rentals, Navy
17X6875	Suspense, Navy
17X6999	Accounts Payable, Check Issue Underdrafts, Navy

D. Basis of Accounting.

The DON generally records transactions on a budgetary basis and not an accrual accounting basis as is required by Federal GAAP. For FY 2003, DON's financial management systems are unable to meet all of the requirements for full accrual accounting. Many of the DON's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of Federal GAAP and, therefore, were not designed to collect and record financial information on the full accrual accounting basis as required by Federal GAAP. The DON has undertaken efforts to determine the actions required to bring its financial and nonfinancial feeder systems and processes into compliance with all elements of Federal GAAP. One such action is the current revision of its accounting systems to record transactions based on the United States Standard General Ledger (USSGL). Until such time as all of the DON's financial and nonfinancial feeder systems and processes are updated to collect and report financial information as required by Federal GAAP, the DON's financial data will be based on budgetary transactions (obligations, disbursements, and collections), and transactions from nonfinancial feeder systems, adjusted for known accruals of major items such as payroll expenses, accounts payable, and environmental liabilities. However, when possible, the financial statements are presented on the accrual basis of accounting as required. One example of information presented on the budgetary basis is the data on the Statement on Net Cost. Much of this information is based on obligations and disbursements and may not always represent accrued costs.

In addition, the DON identifies programs based upon the major appropriation groups provided by Congress. The DON is in the process of reviewing available data and attempting to develop a cost reporting methodology that balances the need for cost information required by the Statement of Federal Financial Accounting Standard (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," with the need to keep the financial statements from being overly voluminous.

E. Revenues and Other Financing Sources.

Financing sources for general funds are provided primarily through congressional appropriations that are received on both an annual and a multiyear basis. When authorized, these appropriations are supplemented by revenues generated by sales of goods or services through a reimbursable order process. The DON recognizes revenue as a result of costs incurred or services performed on behalf of other federal agencies and the public. Revenue is recognized when earned under the reimbursable order process.

The DON does not include non-monetary support provided by U.S. Allies for common defense in mutual security in its list of other financing sources that appears in the Statement of Financing. The U.S. has agreements with foreign countries that include both direct or indirect sharing of costs that each country incurs in support of the same general purpose. Examples include countries where there is a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. fleet is in a port. DOD is reviewing these types of financing and costs reductions in

order to establish accounting policies and procedures to identify what, if any, of these costs are appropriate for disclosure in the financial statements in accordance with generally accepted accounting principles. Recognition of support provided by host nations would affect both financing sources and recognition of expenses.

F. Recognition of Expenses.

For financial reporting purposes, the DON policy requires the recognition of operating expenses in the period incurred. However, because the DON's financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis, accrual adjustments are made for major items such as payroll expenses, accounts payable, and environmental liabilities. Expenditures for capital and other long-term assets are not recognized as expenses in the DON's operations until depreciated in the case of Property, Plant and Equipment (PP&E) or consumed in the case of Operating Materials and Supplies (OM&S). Net increases or decreases in unexpended appropriations are recognized as a change in the net position. Certain expenses, such as annual and military leave earned but not taken, are financed in the period in which payment is made.

Operating expenses were adjusted as a result of elimination of balances between DoD components. See Note 19.I, Intra-governmental Expenses and Revenue for disclosure of adjustment amounts.

G. Accounting for Intra-governmental Activities.

The DON, as an agency of the federal government, interacts with and is dependent upon the financial activities of the federal government as a whole. Therefore, these financial statements do not reflect the results of all financial decisions applicable to the DON as though the agency was a stand-alone entity.

The DON's proportionate share of public debt and related expenses of the federal government are not included. Debt issued by the federal government and the related costs are not apportioned to federal agencies. The DON's financial statements, therefore, do not report any portion of the public debt or interest thereon, nor do the statements report the source of public financing whether from issuance of debt or tax revenues.

Financing for the construction of DoD facilities is obtained through budget appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the Department of the Treasury does not allocate such interest costs to the benefiting agencies.

The DON's civilian employees participate in the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS), while military personnel are covered by the Military Retirement System (MRS). Additionally, employees and personnel covered by FERS and MRS also have varying coverage under Social Security. The DON funds a portion of the civilian and military pensions. Reporting civilian pension under CSRS and FERS retirement systems is the responsibility of the Office of Personnel Management (OPM). The DON recognizes an imputed expense for the portion of civilian employee pensions and other retirement benefits funded by the OPM in the Statement of Net Cost; and recognizes corresponding imputed revenue from the civilian employee pensions and other retirement benefits in the Statement of Changes in Net Position.

DoD reports the assets, funded actuarial liability, and unfunded actuarial liability for the military personnel in the Military Retirement Fund (MRF) financial statements. DoD recognizes the actuarial liability for the military retirement health benefits in the Other Defense Organization General Fund column of the DoD Agency-wide consolidating/combining statements.

To prepare reliable financial statements, transactions occurring between components or activities within the DON must be eliminated. However, the DON, as well as the rest of the federal government, cannot accurately identify all intra-governmental transactions by customer. The Defense Finance and Accounting Services (DFAS) is responsible for eliminating transactions between components or activities of the DON. For FYs 1999 and beyond seller entities within DoD provided summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal DoD accounting offices. In most cases, the buyer-side records have been adjusted to recognize unrecorded costs and accounts payable. Intra-DoD intra-governmental balances were then eliminated.





The Department of the Treasury, Financial Management Services (FMS) is responsible for eliminating transactions between the Department and other federal agencies. In September 2000, the FMS issued the "Federal Intra-governmental Transactions Accounting Policies and Procedures Guide." The Department was not able to fully implement the policies and procedures in this guide related to reconciling intra-governmental assets, liabilities, revenues, and expenses for non-fiduciary transactions. The DON, however, was able to implement the policies and procedures contained in the "Intra-governmental Fiduciary Transactions Accounting Guide" as updated by the "Federal Intra-governmental Transactions Accounting Policies and Procedures Guide," issued October 2002, for reconciling intra-governmental transactions. These transactions pertain to investments in Federal securities, borrowings from the United States (U.S.) Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor (DoL), and benefit program transactions with the OPM.

H. Transactions with Foreign Governments and International Organizations.

Each year, the DoD Components sell defense articles and services to foreign governments and international organizations, primarily under the provisions of the "Arms Export Control Act of 1976." Under the provisions of this Act, DoD has authority to sell defense articles and services to foreign countries and international organizations, generally at no profit or loss to the U.S. Government. Customers may be required to make payments in advance.

I. Funds with the U.S. Treasury.

The DON'S financial resources are maintained in U.S. Treasury accounts. The majority of cash collections, disbursements, and adjustments are processed worldwide at the DFAS, Military Services, and the U. S. Army Corps of Engineers (USACE) disbursing stations, as well as the Department of State financial service centers. Each disbursing station prepares monthly reports, which provide information to the U.S. Treasury on check issues, electronic fund transfers, interagency transfers and deposits.

In addition, the DFAS sites and the USACE Finance Center submit reports to the Department of the Treasury, by appropriation, on interagency transfers, collections received, and disbursements issued. The Department of the Treasury then records this information to the applicable Fund Balance with Treasury (FBWT) account maintained in the Treasury's system. Differences between the DON's recorded balance in the FBWT accounts and Treasury's FBWT accounts sometimes result and are subsequently reconciled. Material disclosures are provided at Note 3. Differences between accounting offices' detail-level records and Treasury's FBWT accounts are disclosed in Note 21.B, specifically, differences caused by in-transit disbursements and unmatched disbursements (which are not recorded in the accounting offices' detail-level records).

J. Foreign Currency.

The DON conducts a significant portion of its operations overseas. The Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations (operation and maintenance, military personnel, military construction, family housing operations and maintenance, and family housing construction.) The gains and losses are computed as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustment to the original obligation amount at the time of payment. These currency fluctuations are not separately identified.

K. Accounts Receivable.

As presented in the Balance Sheet statement, accounts receivable includes accounts, claims, and refunds receivable from other federal entities or from the public. Allowances for uncollectible accounts due from the public are based upon analysis of collection experience by fund type. The Department does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies. Material disclosures are provided at Note 5.

L. Loans Receivable.

Not Applicable.

M. Inventories and Related Property.

Effective October 1, 2002, Statement of Federal Financial Accounting Standards No. 23, *Eliminating the Category National Defense Property, Plant, and Equipment*, revises accounting principles for military equipment (previously referred to as National Defense Property, Plant, and Equipment). The standard renames National Defense Property, Plant, and Equipment to military equipment, classifies military equipment as general property, plant, and equipment, and requires the capitalization and depreciation of the costs of military equipment, including the costs of modifications and upgrades. Likewise, military equipment (previously referred to as National Defense Property, Plant, and Equipment) also includes items, which will now be classified as Operating Materials and Supplies (OM&S).

Implementation of the new accounting principles requires the adjustment of October 1, 2002, the OM&S balance to recognize the investment, accumulated depreciation, and net book value of military equipment that previously had been expensed in as discussed further in Notes 9.

The DON uses the LAC method because its inventory systems were designed for material management rather than accounting. The systems provide accountability and visibility over inventory items. They do not maintain the historical costs data necessary to comply with the SFFAS No. 3, "Accounting for Inventory Related Property." Neither can they directly produce financial transactions using the USSGL, as required by the Federal Financial Management Improvement Act of 1996 (P.L. 104-208). DoD is transitioning to a Moving Average Cost methodology for valuing inventory and OM&S that when fully implemented will allow the DON to comply with SFFAS No. 3.

SSFAS No. 3 distinguishes between "inventory held for sale" and "inventory held in reserve for future sale." There is no management or valuation difference between the two USSGL accounts. Further, the DoD manages only military or government-specific material under normal conditions. Items commonly used in and available from the commercial sector are not managed in the DoD material management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The DoD holds material based on military need and support for contingencies. Therefore, the DON does not attempt to account separately for items held for current or future use.

Related property includes OM&S and stockpile materials. The OM&S, including munitions not held for sale, are valued at standard purchase price. The DoD uses the consumption method of accounting for OM&S, for the most part, expensing material when it is issued to the end user. Where current systems cannot fully support the consumption method, the DON uses the purchase method - that is, expensed when purchased. The DON reported significant amounts using the purchase method either because the systems could not support the consumption method or because management deems that the item is in the hands of the end user.

DoD implemented new policy in FY 2002 to account for condemned material (only) as "Excess, Obsolete, and Unserviceable." The net value of condemned material is zero, because the costs of disposal are greater than the potential scrap value. Material that can be potentially redistributed, presented in previous years as "Excess, Obsolete, and Unserviceable," is included in the "Held for Use" or "Held for Repair" categories according to its condition.

In addition, past audit results identified uncertainties about the completeness and existence of quantities used to produce the reported values. Material disclosures related to inventory and related property are provided at Note 9.

N. Investments in U.S. Treasury Securities.

Investments in U.S. Treasury securities are reported at cost, net of unamortized premiums or discounts. Premium or discounts are amortized into interest income over the term of the investment using the effective interest rate method or other methods if similar results are obtained. The DON's intent is to hold investments to maturity; unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

The DON invests in non-marketable securities. The two types of non-marketable securities are par value and market based Intra-governmental securities. The Bureau of Public Debt issues non-marketable Par Value Intra-governmental Securities. Non-marketable, Market Based Intra-governmental Securities mimic marketable securities, but are not traded publicly. See Note 4 for material disclosures.



**O. General Property, Plant and Equipment.**

A change in accounting principle regarding military equipment (e.g., ships, aircraft, combat vehicles, weapons) was effective for accounting periods beginning after September 30, 2002. Until the change in accounting principle, the acquisition costs for military equipment classified as National Defense Property, Plant, and Equipment (PP&E) were expensed in the period incurred. In addition, valuation, condition, and deferred maintenance information for these items was presented off-balance sheet. Statement of Federal Financial Accounting Standards No. 23, *Eliminating the Category National Defense Property, Plant, and Equipment*, establishes new generally accepted accounting principles for valuing and reporting military equipment in federal financial statements. The standard requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades.

Implementation of the new accounting principles requires the adjustment of the October 1, 2002, General Property, Plant, and Equipment balance to recognize the investment, accumulated depreciation, and net book value of military equipment that previously had been expensed. As discussed further in Note 10, the adjustment was based on data provided by the Bureau of Economic Analysis, Department of Commerce.

General PP&E, exclusive of Military Equipment, is capitalized at historical acquisition cost plus capitalized improvements when an asset has a useful life of two or more years, and when the acquisition cost equals or exceeds the DoD capitalization threshold of \$100,000. Also, improvement costs over the DoD capitalization threshold of \$100,000 for General PP&E, are required to be capitalized. All General PP&E, other than land and Military Equipment, is depreciated on a straight-line basis. Land is not depreciated.

When it is in the best interest of the government, the DON provides to contractors government property necessary to complete contract work. Such property is either owned or leased by the DON, or purchased directly by the contractor for the government based on contract terms. When the value of contractor procured General PP&E exceeds the DoD capitalization threshold, such PP&E is required to be included in the value of General PP&E reported on the DON's Balance Sheet. DoD is developing new policies and a contractor reporting process that will provide appropriate General PP&E information for future financial statement reporting purposes. Accordingly, the DON currently reports only government property in the possession of contractors that is maintained in the DON'S property systems.

To bring the DON into fuller compliance with federal accounting standards, DoD has issued new property accountability and reporting regulations that require the DoD Components to maintain, in DoD Component property systems, information on all property furnished to contractors. This action and other DoD proposed actions are structured to capture and report the information necessary for compliance with federal accounting standards. Material disclosures are provided at Note 10.

P. Advances and Prepayments.

Payments in advance of the receipt of goods and services are recorded as advances or prepayments and reported as an asset on the Balance Sheet. Advances and prepayments are recognized as expenditures and expenses when the related goods and services are received.

Q. Leases.

Generally, lease payments are for the rental of equipment and operating facilities and are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease) the DON records the applicable asset and liability if the value equals or exceeds the current DoD capitalization threshold. The DON records the amounts as the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair value. The DON deems the use of estimates for these costs as adequate and appropriate due to the relatively low dollar value of capital leases. Imputed interest was necessary to reduce net minimum lease payments to present value calculated at the incremental borrowing rate at the inception of the leases. In addition, the DON classifies leases that do not transfer substantially all of the benefits or risks of ownership as operating leases and records payment expenses over the lease term.

R. Other Assets.

DON conducts business with commercial contractors under two primary types of contracts— fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the DON provides financing payments. One type of financing payment that the DON makes, for real property, is based upon a percentage of completion. In accordance with the SFFAS No. 1, “Accounting for Selected Assets and Liabilities,” such payments are treated as construction in process and are reported on the General PP&E line and in Note 10, General PP&E, Net.

In addition, based on the Federal Acquisition Regulation (FAR), the DON makes financing payments under fixed price contracts that are not based on a percentage of completion. The DON reports these financing payments as advances or prepayments in the “Other Assets” line item. The DON treats these payments as advances or prepayment because the DON becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the DON is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the DON for the full amount of the advance.

DoD has completed a review of all applicable federal accounting standards; applicable public laws on contract financing; FAR Parts 32, 49, and 52; and the OMB guidance in 5 Code of Federal Regulations Part 1315, “Prompt Payment.” DoD concluded that SFFAS No. 1 does not fully or adequately address the subject of progress payment accounting and is considering what further action is appropriate.

S. Contingencies and Other Liabilities.

The SFFAS No. 5, “Accounting for Liabilities of the Federal Government,” defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss to the DON. The uncertainty will be resolved when one or more future events occur or fail to occur. A contingency is recognized as a liability when a past event or exchange transaction has occurred, a future loss is probable and the amount of loss can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist but there is at least a reasonable possibility that a loss or additional loss will be incurred. Examples of loss contingencies include the collectibility of receivables, pending or threatened litigation, possible claims and assessments. The DON’s loss contingencies arising as a result of pending or threatened litigation or claims and assessments occur due to events such as aircraft, ship and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.

Other liabilities arise as a result of anticipated disposal costs for the DON’s assets. This type of liability has two components— nonenvironmental and environmental. Recognition of an anticipated environmental disposal liability begins when the asset is placed into service, consistent with SFFAS No. 6, “Accounting for Property, Plant, and Equipment.” Based upon the DON’s policies and consistent with SFFAS No.5 “Accounting for Liabilities of Federal Government,” a nonenvironmental disposal liability is recognized for an asset when management makes a decision to dispose of the asset. The Department has agreed to the recognition of nonenvironmental disposal liability for nuclear powered assets when the asset is placed in service. Such amounts are developed in conjunction with and not easily identifiable separately from environmental disposal costs. Material disclosures are provided at Notes 14 and 15.

T. Accrued Leave.

Civilian annual leave and military leave that has been accrued and not used as of the balance sheet date are reported as liabilities. The liability reported at the end of the fiscal year reflects the current pay rates.





U. Net Position.

Net Position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations represent amounts of authority, which are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.

Cumulative results of operations represent the difference, since inception of an activity, between expenses and losses and financing sources (including appropriations, revenue, and gains). Beginning with FY 1998, this included the cumulative amount of donations and transfers of assets in and out without reimbursement.

V. Treaties for Use of Foreign Bases.

The DoD Components have the use of land, buildings, and other facilities, which are located overseas and have been obtained through various international treaties and agreements negotiated by the Department of State. The DoD capital assets overseas are purchased with appropriated funds; however, title to land and improvements are retained by the host country. Generally, treaty terms allow the DoD Components continued use of these properties until the treaties expire. These fixed assets are subject to loss in the event treaties are not renewed or other agreements are not reached which allow for the continued use by the Department. Therefore, in the event treaties or other agreements are terminated whereby use of the foreign bases is no longer allowed, losses will be recorded for the value of any non-retrievable capital assets after negotiations between the U.S. and the host country have been concluded to determine the amount to be paid the U.S. for such capital investments.

W. Comparative Data.

The Financial Statements and accompanying Notes to the Financial Statements report the financial position and results of operations for FY 2003. Financial statement fluctuations greater than 2 percent of total assets on the Balance Sheet and/or greater 10 percent between FY 2002 and FY 2003, are explained within the Notes to the Financial Statements.

X. Unexpended Obligations.

The DON obligates funds to provide goods and services for outstanding orders not yet delivered. The financial statements do not reflect this liability for payment for goods/services not yet delivered.

Y. Data Collection Approach.

The DON financial statements include information from both financial systems and non-financial feeder systems. The Defense Finance Accounting Service Cleveland Center (DFAS-CL) collects the financial system information and incorporates it into the financial statements. The DON collects financial information from non-financial feeder systems through a data call process and submits it to DFAS-CL for incorporation into the financial statements. For FY 2003, the DON utilized a web-based data collection instrument (DCI) that captures all required financial information from non-financial feeder systems for the General Fund (GF) statements. This is the fifth year DON has used the DCI to collect non-financial feeder information. The DCI identifies the information requirements to the source provider, provides an audit trail, and integrates into the DFAS-CL financial statement preparation process.

NOTE 2. NONENTITY AND ENTITY ASSETS

As of September 30, (Amounts in thousands)	2003			2002 Nonentity Assets
	Nonentity	Entity	Total	
1. Intra-governmental Assets:				
A. Fund Balance with Treasury	\$ 223,225	\$ 78,191,653	\$ 78,414,878	\$ 250,075
B. Investments	0	9,801	9,801	0
C. Accounts Receivable	0	496,863	496,863	0
D. Other Assets	0	187,865	187,865	0
E. Total Intra-governmental Assets	\$ 223,225	\$ 78,886,182	\$ 79,109,407	\$ 250,075
2. Non-Federal Assets:				
A. Cash and Other Monetary Assets	\$ 282,995	\$ 0	\$ 282,995	\$ 130,664
B. Accounts Receivable	2,642,168	739,965	3,382,133	2,460,546
C. Loans Receivable	0	0	0	0
D. Inventory & Related Property	0	53,611,634	53,611,634	0
E. General Property, Plant and Equipment	0	158,407,450	158,407,450	0
F. Investments	0	0	0	0
G. Other Assets	0	6,180,624	6,180,624	0
H. Total Non-Federal Assets	\$ 2,925,163	\$ 218,939,673	\$ 221,864,836	\$ 2,591,210
3. Total Assets:	\$ <u>3,148,388</u>	\$ <u>297,825,855</u>	\$ <u>300,974,243</u>	\$ <u>2,841,285</u>

4. Other Information Related to Nonentity and Entity Assets.Fluctuation and/or Abnormalities

An explanation of fluctuations and abnormalities in any particular line are included in the note for that particular asset. See notes 3-10.

Definitions

Assets are categorized as:

- Entity accounts consist of resources that the DON has the authority to use, or when management is legally obligated to use funds to meet entity obligations.
- Nonentity accounts are assets held by an entity, but are not available for use in the operations of the entity.

Other Disclosures

- Nonentity Assets. As of September 30, 2003, DON holds \$3,148,388 thousand nonentity assets. These assets are not available for use by the DON in its day-to-day operations but the DON maintains stewardship accountability and responsibility to report. There are three categories of significant nonentity assets held by the DON: (1) the Nonentity Intra-governmental Fund Balance with Treasury, (2) Cash and Other Monetary Assets, and (3) the Nonentity Nonfederal Accounts Receivable.
- Non-Entity Nonfederal Accounts Receivable (public). Non-Entity Accounts Receivable with the public contains \$1,333,494 thousand (principal) in advance payments made to contractors and \$ 1,075,791 thousand in associated accrued interest that remain in litigation. These balances are being reported in Non-Entity Accounts Receivable since the original appropriation year has been cancelled, and any funds collected as a result of this litigation would go to treasury and not be available for the DON's use in normal operations. See Note 5 for additional information.





Reference

For Additional Line Item discussion, see:

- Note 3, Fund Balance with Treasury
- Note 4, Investments
- Note 5, Accounts Receivable
- Note 6, Other Assets
- Note 7, Cash and Other Monetary Assets
- Note 8, Direct Loans and/or Loan Guarantee Programs
- Note 9, Inventory and Related Property, Net
- Note 10, General Property, Plant, and Equipment (PP&E), Net

For regulatory discussion on Nonentity and Entity Assets, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1004.

NOTE 3. FUND BALANCE WITH TREASURY

As of September 30, (Amounts in thousands)	2003	2002
1. Fund Balances:		
A. Appropriated Funds	\$ 76,290,090	\$ 66,480,155
B. Revolving Funds	1,779,963	1,491,480
C. Trust Funds	18,877	15,995
D. Other Fund Types	325,948	262,325
E. Total Fund Balances	<u>\$ 78,414,878</u>	<u>\$ 68,249,955</u>
2 Fund Balances Per Treasury Versus Agency:		
A. Fund Balance per Treasury	\$ 78,414,878	\$ 68,249,955
B. Fund Balance per Agency	78,414,878	68,249,955
C. Reconciling Amount	<u>\$ 0</u>	<u>\$ 0</u>

3. Explanation of Reconciliation Amount:

Not Applicable.

4. Other Information Related to Fund Balance with Treasury:

Fluctuation and/or Abnormalities

The DON reported an increase of \$10,164,923 thousand, 15 percent, in Fund Balance with the Treasury (FBWT) in FY 2003 when compared with FY 2002. The majority of the change is due to an increase in the DON appropriations in FY 2003. When comparing FY 2003 Revolving Fund with FY 2002 there is an increase of \$288,483 thousand or 19 percent. This increase is a result of additional funding for the revolving fund (4557 account - National Defense Sealift Fund, Navy) that provided funding for transportation for the deployment of Operation IRAQI Freedom. Also, a portion of the increase in the Fund Balance with Treasury was caused by a transfer directed by the Defense Appropriations Act, 2003, Public Law 107-248, Section 8112. This law transferred \$120 million from the NWCF Fund Balance with Treasury to Operations and Maintenance, Navy. DON also increased \$2,882 thousand, 18 percent, in Trust Fund due to additional donations. An increase of \$63,623 thousand, 24 percent, in Other Fund Types in FY 2003 when compared with FY 2002 is a result of an significant increase in the Kaho Olawe Island Conveyance, Remediation and Environmental Restoration Fund.

The \$26,850 thousand, 11 percent, reduction in Nonentity FBWT occurred primarily as a result in \$47,000 thousand decrease in Withheld State and Local Taxes, a \$28, 000 thousand decrease of Defense Military Receipts

Not Other Classified and a \$19,794 thousand decrease in Military Thrift Savings Plan. The decrease is offset by an increase of \$55,000 thousand in Recoveries under Foreign Military Sales and \$13,747 in Pay of the Navy Deposit Fund. The reason for the overall decrease is the timing as to when payments from the nonentity accounts is distributed. For example withheld State and Local taxes can fluctuate month to month based upon the timing of payrolls, and the various due date requirements of each state and local government.

Other Disclosures

To deal with reconciliation of check issue discrepancy and deposit differences that are aged 90 days or greater some of the following actions are being taken: (1) Follow-up action with disbursing officers on the status of their resolving transactions listed on their statement of differences; (2) Weekly teleconferences with the field sites and site visits; and (3) improving training.

Reference

See Note Disclosure 1.I. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Funds with the U.S. Treasury.

For regulatory discussion on Fund Balance with Treasury, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 100501.

NOTE 4. INVESTMENTS

As of September 30,	2003				2002	
	Cost	Amortization Method	Amortized (Premium/Discount)	Investments, Net	Market Value Disclosure	Investments, Net
(Amounts in thousands)						
1. Intragovernmental Securities:						
A. Marketable	\$ 0		\$ 0	\$ 0	\$ 0	\$ 0
B. Non-Marketable, Par Value	0		0	0	0	0
C. Non-Marketable, Market-Based	9,856	N/A	(150)	9,706	9,706	9,465
D. Subtotal	\$ 9,856		\$ (150)	\$ 9,706	\$ 9,706	\$ 9,465
E. Accrued Interest	95			95	95	160
F. Total Intragovernmental Securities	\$ 9,951		\$ (150)	\$ 9,801	\$ 9,801	\$ 9,625

2. Other Investments: None

3. Other Information Related to Investments

Other Disclosures

The two DON Trust Funds are the Naval Academy General Gift Fund and the Navy General Gift Fund, which have a total investment, net of \$9,801 thousand (included \$95 thousand of accrued interest.) These investments are Non-Marketable Market-Based securities reported at cost, net of amortized premiums and discounts.

Reference

See Note Disclosure 1.N. – Investments in U.S. Treasury for additional DoD policies governing Investments in U.S. Treasury Securities.

For regulatory discussion on Investments, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1006.





NOTE 5. ACCOUNTS RECEIVABLE

As of September 30,	2003			2002
	Gross Amount Due	Allowance For Estimated Uncollectibles	Accounts Receivable, Net	Accounts Receivable, Net
(Amounts in thousands)				
1. Intra-governmental Receivables:	\$ 496,863	N/A	496,863	\$ 742,467
2. Non-Federal Receivables (From the Public):	\$ 3,665,123	\$ (282,990)	\$ 3,382,133	\$ 2,799,887
3. Total Accounts Receivable:	\$ 4,161,986	\$ (282,990)	\$ 3,878,996	\$ 3,542,354

4. Other Information Related to Accounts Receivables:

Fluctuation and/or Abnormalities

The DON reported a decrease of \$245,604 thousand, 33 percent, in Intra-governmental Receivables in FY 2003 when compared to FY 2002. The decrease is due to improving the process to capture trading partner information and intra-governmental eliminations process. Also contributing to the decrease is a result of a correction that was made to overstated Receivables reflected in the program year 1998 and 1999. The correction was found during system conversion and the adjustment was made in October 2002. In addition, the Marine Corps made a concerted effort to research and write off the invalid receivables that resulted in the reduction of the Intra-governmental Receivables of \$145,202 thousand.

The DON reported an overall increase of \$582,246 thousand, 21 percent, in Non-federal Receivables in FY 2003 when compared to FY 2002. The increase of \$56,839 thousand is interest related to pending contract settlement that is expected to be collected through litigation. The remaining portion of the increase is a result of improved reporting of receivables from non-accounting systems. Detailed listing is under other DON disclosures.

Allowance Method

For all program groups except Military Personnel appropriations, the DON estimate for the entity allowance is 3 percent. The entity allowance for Military Personnel is estimated to be 14 percent. Each estimate is based on write-offs of accounts receivable over the last three-year period. The nonentity allowance was established at 50 percent excluding interest receivables pertaining to pending litigation.

Intra-governmental Accounts Receivable Adjustments

- Allocation of Undistributed Collections.

Undistributed disbursements and collections are allocated between federal and non-federal categories based on the percentage of federal and non-federal Accounts Payable and Accounts Receivable as submitted in the field level general ledgers. This allocation was suggested as appropriate in a DFAS Arlington memorandum dated October 4, 2000, which required disclosure to the audit community of the applicable methodology used to allocate undistributed.

- Elimination Adjustments.

The DON's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the DON was unable to reconcile intra-governmental accounts receivable balances with its trading partners. Through the ongoing Business Management Modernization Program (BMMP), the Department intends to develop long-term systems improvements that will capture the data necessary to perform reconciliations.

Intrafund transactions are eliminated based upon trading partner information obtained from the Bureau of Naval Personnel System (BUPERS), Standard Accounting and Reporting System – Field Level (STARS-FL), and the Standard Accounting and Reporting System – Headquarters Module (STARS-HQ). The elimination data obtained from these systems included seller appropriation, grantor (buyer) appropriation, grantor subhead, grantor code, reimbursable source code, accounts receivable, revenue and unearned revenue.

Other Disclosures

- Nonentity Non-Federal Accounts Receivables includes the following:

(Amounts in thousands)	Nonentity Non-Federal Accounts Receivable (Gross) As of September 30, 2003
Contract Litigation Principal and Interest	\$2,409,285
DDMS	13,480
CDS/MOCAS system debts	245,997
Civilian Pay (DCPS) debt	2,941
In-service Debt & Other Debt	43,741
JAG	5,146
Penalties, Fines and Admin. Fees and Interest	148,565

The contract litigation includes principal of \$1,333,494 thousand, and accrued interest receivable of \$1,075,791 thousand.

Other Debt represents foreign military sales and DON provided services to the public.

- Abnormal Account Balances.

Abnormal Accounts Payable and Accounts Receivable balances may occur for two main reasons – 1) the application of undistributed disbursement/collections and 2) as a result of the intra-governmental transaction elimination process. DFAS Arlington has provided guidance in a memorandum dated March 1, 2001 to record accruals, for financial statement presentation purposes, to correct abnormal balances.

Undistributed disbursements/collections are recorded in Accounts Payable and Accounts Receivable, respectively. For a variety of reasons, the application of undistributed transactions may result in abnormal balances.

In accordance with the DoD FMR, Volume 6B, Chapter 13, adjustments are recorded, at the appropriation level, to bring the DON's intra-governmental accounts into agreement with its trading partners' intra-governmental accounts. These elimination process adjustments may also result in abnormal Accounts Payable and Accounts Receivable.

Reference

See Note Disclosure 1.K. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Accounts Receivable.

For regulatory discussion on Accounts Receivable, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1007.





NOTE 6. OTHER ASSETS

As of September 30, (Amounts in thousands)	2003	2002
1. Intra-governmental Other Assets:		
A. Advances and Prepayments	\$ 187,865	\$ 67,081
B. Other Assets	0	0
C. Total Intra-governmental Other Assets	\$ 187,865	\$ 67,081
2. Non-Federal Other Assets:		
A. Outstanding Contract Financing Payments	\$ 5,809,610	\$ 4,609,272
B. Other Assets (With the Public)	371,014	171,190
C. Total Non-Federal Other Assets	\$ 6,180,624	\$ 4,780,462
3. Total Other Assets:	\$ 6,368,489	\$ 4,847,543

4. Other Information Related to Other Assets:

Fluctuation and/or Abnormalities

The DON reported an increase of \$120,784 thousand, 180 percent, in Intra-governmental Other Assets, Advances and Prepayment in FY 2003 when compared with FY 2002. The increase is a result of advances to the Navy Working Capital Fund for work at the shipyards that has been delayed and the Defense Security Services.

DON also reported an increase of \$1,400,162 thousand, 29 percent, in Nonfederal Other Assets. This change reflects an increase of \$1,200,338 thousand, 26 percent, in outstanding contract financing payments and an increase of \$199,824 thousand, 117 percent, in advances with the public. This increase reflects increased funding and therefore increased activity in the procurement accounts such as Aircraft Procurement, Shipbuilding and Conversion, Weapons Procurement, and Other Procurement and advances with the public as a result of Operation Iraqi Freedom and subsequent events respectively.

Other Disclosures

- **Advances and Prepayment.**
The buyer-side advances to others balances were adjusted to agree with seller-side advances from others on the books or other DoD reporting entities. Additionally, the buyer-side prepayment balances were adjusted to agree with seller-side deferred credits on the books of other DoD reporting entities.
- **Outstanding Contract Financing Payments.**
The DON has reported outstanding financing payments for fixed price contracts as an advance and prepayment, because under the terms of the fixed price contracts, the DON becomes liable only after the contractor delivers the goods in conformance with the contract terms. If the contractor does not deliver a satisfactory product, the DON is not obligated to reimburse the contractor for its costs and the contractor is liable to repay the DON for the full amount of the outstanding contract financing payments. DoD has completed its review of all applicable federal accounting standards; applicable public laws on contract financing; FAR Parts 32,48, and 52; and the OMB guidance in 5 CFR Part 1315, "Prompt Payment." The DON has concluded that the SFFAS No. 1, "Accounting for Selected Assets and Liabilities" does not fully or adequately addresses the subject of progress payment accounting and is considering what further action is appropriate.

The following table displays the Outstanding Contract Financing Payments attributed by program:

(Amounts in thousands)	As of September 30, 2003
Aircraft Procurement	\$4,210,169
Shipbuilding and Conversion	603,396
Weapons Procurement	393,739
Other Procurement	478,028
Other (O&M, RDT&E)	124,278
Total	\$5,809,610

Reference

See Note Disclosure 1.R. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Other Assets.

For regulatory discussion on Other Assets, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1008.

NOTE 7. CASH AND OTHER MONETARY ASSETS

As of September 30,	2003	2002
(Amounts in thousands)		
1. Cash	\$ 224,881	\$ 130,162
2. Foreign Currency (non-purchased)	58,114	502
3. Other Monetary Assets	0	0
4. Total Cash, Foreign Currency, & Other Monetary Assets	\$ 282,995	\$ 130,664

5. Other Information Related to Cash and Other Monetary Assets

Fluctuation and/or Abnormalities

The DON reported an increase of \$152,331 thousand, 117 percent, in Total Cash, and Foreign Currency in FY 2003 when compared with FY 2002. The increase is mainly due to the deployment for Operation IRAQI Freedom and subsequent events related to that action. The Disbursing Officers had more cash and foreign currency on hand than they would have under normal operational requirements.

Definitions

Cash - The total of cash resources under the control of the DON, which includes coin, paper currency, purchased foreign currency, negotiable instruments, and amounts on deposit in banks and other financial institutions. Cash available for agency use should include petty cash funds and cash held in revolving funds, which will not be transferred into the U.S. Government General Fund.

Foreign Currency - consists of the total U.S. dollar equivalent of non-purchased foreign currencies held in foreign currency fund accounts. Non-purchased foreign currency is limited to the Treasury Index 97X7000 fund account (formerly called FT accounts).

Other Monetary Assets - includes gold, special drawing rights, and U.S. Reserves in the International Monetary Fund. This category is principally for use by the Department of the Treasury.

Restriction on Cash - All cash and other monetary assets reported are classified as nonentity, which means that the assets are not available for the DON's use in normal operations.





Other Disclosures

Cash and Foreign Currency reported consists primarily of cash held by Disbursing Officers to carry out their paying, collecting, and foreign currency accommodation exchange mission. The primary source of the amounts reported is the Standard Form 1219, Statement of Accountability reported by DoD Disbursing Officers.

The DON translates foreign currency to U.S.dollars utilizing the Department of the Treasury Prevailing Rate of Exchange. This rate is the most favorable rate that would legally be available to the U.S. Government's acquisition of foreign currency for its official disbursement and accommodation of exchange transactions.

Reference

See Note Disclosure 1.J. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Foreign Currency.

For regulatory discussion on Cash and Other Monetary Assets, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1009.

NOTE 8.A. DIRECT LOAN AND/OR LOAN GUARANTEE PROGRAMS

The DoD operates the following Direct Loan and/or Loan Guarantee Program:

Military Housing Privatization Initiative

Other Information Related to Direct Loan and/or Loan Guarantee Programs.

The Military Housing Privatization Initiative (MHPI) fosters a mutually beneficial relationship between the DoD and the private sector. For the DoD, the MHPI results in the construction of more housing built to market standards, at a lower cost than through the military construction process. Commercial construction (Private Sector) is faster and less costly than military construction and significantly stretches and leverages the DoD's limited housing funds. The MHPI also provides protection against specific risks, such as base closure or member deployment, for the private sector partner.

An analysis of loans receivables, loan guarantees, the liability for loan guarantees, and the nature and amounts of the subsidy and administrative costs associated with the direct loans and loan guarantees is provided in the following sections of this note.

DoD operates a loan guarantee program authorized by the National Defense Authorization Act for FY 1996, Public Law 104-106 Stat. 186 Section 2801, includes a series of powerful authorities that allow DoD to work with the private sector to renovate military housing. DoD's goals are to:

- obtain private capital to leverage government dollars,
- make efficient use of limited resources, and
- use a variety of private sector approaches to build and renovate military housing faster and at a lower cost to American taxpayers.

The Act also provides DoD with a variety of authorities to obtain private sector financing and expertise to improve military housing. DoD uses these authorities individually, or in combination. They include:

- guarantees, both loan and rental
- conveyance/leasing of existing property and facilities
- differential lease payments
- investments, both limited partnerships and stock/bond ownership
- direct loans

In addition, the "Federal Credit Reform Act of 1990" governs all amended direct loan obligations and loan guarantee commitments made after FY 1991 resulting in direct loans or loan guarantees.

- Direct loans - are reported net of allowance for subsidy at present value, and
- Loan Guarantee Liabilities - are reported at present value.

Reference:

For regulatory discussion on Direct Loans and Loan Guarantee, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1010.

NOTE 9. INVENTORY AND RELATED PROPERTY

As of September 30,	2003	2002
(Amounts in thousands)		
1. Inventory, Net (Note 9.A.)	\$ 0	\$ 0
2. Operating Materials & Supplies, Net (Note 9.B.)	53,611,634	33,003,595
3. Stockpile Materials, Net (Note 9.C.)	0	0
4. Total	\$ 53,611,634	\$ 33,003,595

NOTE 9.A. INVENTORY, NET

Not Applicable.

NOTE 9.B. OPERATING MATERIALS AND SUPPLIES, NET

As of September 30,	2003			2002	Valuation Method
	OM&S Gross Value	Revaluation Allowance	OM&S, Net	OM&S, Net	
(Amounts in thousands)					
1. OM&S Categories:					
A. Held for Use	\$ 49,948,474	\$ 0	\$ 49,948,474	\$ 27,307,223	LAC, SP, AC, O
B. Held for Repair	5,213,580	(1,550,420)	3,663,160	5,217,802	LAC, SP, AC, O
C. Excess, Obsolete, and Unserviceable	1,186,642	(1,186,642)	0	478,570	LAC, SP, AC, O
D. Total	\$ 56,348,696	\$ (2,737,062)	\$ 53,611,634	\$ 33,003,595	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost
adjusted for holding gains and losses

SP = Standard Price

AC = Actual Cost

NRV = Net Realizable Value

O = Other





2. Restrictions on Operating Materials & Supplies: None

3. Information Related to Operating Materials and Supplies

Fluctuation and/or Abnormalities

Held for Use

The DON reported an increase of \$22,641,251 thousand, 83 percent, in Operating Materials & Supplies (OM&S), Held for Use in FY 2003 when compared with FY 2002. The majority of the increase resulted from the implementing the new accounting standard SFFAS No. 23 "Eliminating the Category of National Defense Property, Plant, and Equipment." The standard requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades. The related implementation of SFFAS No. 23 also can be found in NOTE: 10 under equipment. Resulting from implementing this new accounting standard was a reclassification of conventional missiles and torpedoes from Military Equipment to OM&S. This fact resulted in reporting a value of \$22,687,045 thousand for tactical missiles and torpedoes in FY 2003 and therefore, an increase of OM&S.

The Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) memorandum of July 6, 2001 adopted Moving Average Cost (MAC) as the approved valuation method for valuing Held for Use, Held for Repair, and Excess, Obsolete and Unserviceable categories of OM&S. OUSD(C) memorandum of 12 August 12, 2002 required that beginning with FY 2002, the Department would no longer use the Supply System Inventory Report (SSIR) as the basis for its financial presentation but that the reporting categories will be based upon condition codes. The DON commands had been reporting Held for Use, Held for Repair, and Excess, obsolete and Unserviceable at net value. Beginning with FY 2002, to implement the OUSD(C) memoranda, DON required the major commands to report the gross value with an allowance account for Held for Use, Held for Repair, and Excess, Obsolete and Unserviceable, not the net value. When the financial records were adjusted for this process change at the consolidated DON level, an error was made resulting in a duplicate adjustment at the consolidated DON level for the Held for Use, Held for Repair, and Excess, Obsolete and Unserviceable categories of OM&S. For Held for Use as a result of this error in the amount of \$263,046 thousand in of 2002 was understated. The error was discovered and corrected in FY 2003.

Also contributing to the fluctuation in Held for Use are the following: \$126 million increase in Material and On-hand Inventory at the Fleet Hospitals; \$101 million increase in reporting from the Real-Time Reutilization Asset Management (RRAM) is due to additional DON activities and correcting error found in FY 2002 reporting. The total of the increase is offset by the decrease of \$489 million in Sponsored Owned Materials (SOM) transferred out due to Operation IRAQI Freedom and correcting deficiencies in converting to the SIMs System.

Held for Repair

The DON reported a decrease of \$1,554,642 thousand, 30 percent, in OM&S, Held for Repair in FY 2003 when compared with FY 2002. Held for Repair was overstated by \$3,392,371 thousand in FY 2002 because of the error described above. The error was corrected in FY 2003. The total of the decrease is offset by the increase of \$1,824,457 thousand due to the implementation of the OUSD(C) policy for accounting for "Excess, Obsolete, and Unserviceable (EOU) OM&S." This increase recognized the value of OM&S that previously was included in EOU.

Excess, Obsolete, and Unserviceable (EOU)

The DON reported a decrease of \$ 478,570 thousand, 100 percent, in OM&S, EOU in FY 2003 when compared with FY 2002. EOU was overstated by \$478,570 thousand in FY 2002 because of the error described under Held for Use. The error was corrected in FY 2003.

Other Information Related to Operating Material and Supplies, Net

General Composition of Operating Materials and Supplies (OM&S)

OM&S includes spare and repair parts, ammunition, conventional missiles, torpedoes, aircraft configuration pods, and centrally managed aircraft engines.

The general composition of OM&S is as follows:

(Amounts in thousands)	September 30, 2003
Ammunition and Munitions	\$31,978,960
Appropriation Purchase Account (APA) Principal End Item	8,114,346
Sponsor Owned Material	10,476,114
APA Secondary Inventory	1,178,226
Real-time Reutilization Asset Management (RRAM)	1,472,773
Other	391,215
Total	\$53,611,634

Balances

In addition to the account balances shown in Table 9.B., the Statement of Federal Financial Accounting Standards (SFFAS) No. 3 "Accounting For Inventory and Related Property" requires disclosure of the amount of OM&S held for "Future Use." This information is not captured by current OM&S systems which were designed for material management rather than accounting. However, the DON estimates that \$ 12,512,547 thousand of the OM&S Held for Use will be used more than 24 months after the end of FY 2003.

Decision Criteria For Identifying The Category To Which Operating Materials And Supplies Are Assigned

In order to standardize reporting of the categories Held for Use, Held for Repair, and Excess, Obsolete, Unserviceable, DON implemented the Under Secretary of Defense (Comptroller) (USD(C)) condition code crosswalk as defined in the memorandum "Accounting for Excess, Unserviceable, and Obsolete Inventory and Operating Materials and Supplies" dated 12 August 2002. In addition, On 15 September 2002, USD(C) amended the condition code crosswalk to include code "V" in the Excess, Obsolete, Unserviceable category. OM&S was reported as follows:

OM&S Category	Condition Codes
Held for Use	A, B, C, D
Held for Repair	E, F, G, J, K, L, M, N, R
Excess, Obsolete, Unserviceable	P, H, S, V

Valuation Method for OM&S

In July, 2001, the OUSD(C) issued a memo requiring MAC as the approved valuation method for Inventory Held for Sale and Operating Materials and Supplies. " Each Military Department and Defense Agency responsible for material amounts of inventory or operating materials and supplies shall implement the moving average cost valuation method as systems are renovated or replaced." The DON is participating in the DoD Business Management Modernization Program that is currently reviewing and designing the Business Enterprise Architecture (BEA). The BEA provides for a master plan that includes guidance on transition plan strategy concepts, considerations, processes, and principles. MAC will be implemented as systems are renovated or replaced. Until then, the DON continues to value the OM&S using different valuation methodologies such as standard purchase price or actual cost.

Government Furnished Material (GFM) and Contractor Acquired Material (CAM)

Generally, the value of the DON's GFM and CAM in the hands of contractors is not included in the OM&S values reported above. DoD is presently reviewing its process for reporting these amounts in an effort to determine the appropriate accounting treatment and the best method to annually collect and report required information without duplicating information already in other existing logistics systems.



Other Disclosures

Ammunition and Munitions

Ammunition and Munitions are maintained and valued in The Conventional Ammunition Integrated Management System (CAIMS). The DON has begun the analysis and cost benefit identification of conforming CAIMS to Federal Accounting Standards. The amount reported for Ammunition and Munitions includes \$22,687,045 thousand of tactical missiles and torpedoes that were previously reported as Military Equipment.

Principal End Items

Principal End Items includes OM&S items such as shipboard hull, mechanical and electronic equipment, and uninstalled aircraft engines. Principal End Items are items of such importance that central inventory control is required. They normally possess one of the following characteristics: (a) essential for combat or training; (b) high dollar value; (c) difficult to procure or produce; or (d) critical basic materials or components.

Sponsor Owned Material (SOM)

SOM is defined as "programmatic material required to support Program Manager (PM) mission requirements for production, life cycle maintenance, and installation of systems and equipment consistent with the mission Charter. The material usage may involve, but is not limited to: item fabrication, assembly, testing, manufacture, development, repair, or research and development (R&D)."

Real-time Reutilization Asset Management (RRAM)

This material is considered excess to the owner, but may not be excess to the Navy. Standard price is used to value all stock-numbered items. Part-numbered items are valued by best available information.

Other Operating Material & Supplies

Other OM&S totaled \$391,215 thousand as of September 30, 2003. This consists primarily of \$340,390 thousand in Fleet Hospitals and War Reserves, \$50,825 thousand material in the possession of the US Coast Guard.

Reference

See Note Disclosure 1.M. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Inventory and Related Property.

For regulatory discussion on OM&S, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 101107.

NOTE 9.C. STOCKPILE MATERIALS, NET

Not Applicable.

NOTE 10. GENERAL PROPERTY, PLANT, AND EQUIPMENT (PP&E) (NET)

As of September 30,	2003					2002
	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value	Prior FY Net Book Value
(Amounts in thousands)						
I. Major Asset Classes:						
A. Land	N/A	N/A	\$ 603,961	N/A	\$ 603,961	\$ 645,924
B. Buildings, Structures, and Facilities	S/L	20 - 40	34,086,371	\$ (13,078,647)	21,007,724	20,250,075
C. Leasehold Improvements	S/L	lease term	0	0	0	0
D. Software	S/L	2-5 Or 10	1,058	(635)	423	635
E. Equipment	S/L	5 Or 10	417,852,336	(284,612,995)	133,239,341	844,791
F. Assets Under Capital Lease ⁽¹⁾	S/L	lease term	206	(60)	146	910
G. Construction-in-Progress	N/A	N/A	3,555,855	N/A	3,555,855	4,367,102
H. Other			0	0	0	0
I. Total General PP&E			\$ 456,099,787	\$ (297,692,337)	\$ 158,407,450	\$ 26,109,437

⁽¹⁾ Note 15.B for additional information on Capital Leases

Legend for Valuation Methods:

S/L = Straight Line N/A = Not Applicable

2. Information Related to General PP&E, NetFluctuation and/or Abnormalities**Equipment**

The DON reported an increase of \$ 132,394,550 thousand, 15,672 percent, in Equipment in FY 2003 when compared with FY 2002. The majority of the increase resulted from the implementation of the new accounting standard SFFAS No. 23 "Eliminating the Category of National Defense Property, Plant, and Equipment." The standard requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades. The DON reported Net Book Value of \$132,660,000 thousand for military equipment in FY 2003. See Military Equipment below for detail disclosure.

Construction-In-Process (CIP)

The DON reported a decrease of \$811,247 thousand, 19 percent, in CIP in FY 2003 when compared with FY 2002. The decrease is the implementation of the "automatic transfer to user" resulted better tracking the transfer-out information.

Assets Under Capital Lease

The DON reported a decrease of \$764 thousand, 84 percent, in Assets Under Capital Lease in FY 2003 when compared with FY 2002. The decrease is due to the expiration of leases.

Software

The DON reported a decrease of \$212 thousand, 33 percent, Net Book Value in Software in FY 2003 when compared with FY 2002. The decrease in the Net Book Value in Software is due to the depreciation expenses recorded with no further acquisition in FY 2003.





Other Information Related to General PP&E, Net

Military Equipment.

The Federal Accounting Standards Advisory Board issued the Statement of Federal Financial Accounting Standards No. 23, *Eliminating the Category National Defense Property, Plant, and Equipment*, in May 2003. This standard, which is effective for accounting periods beginning after September 30, 2002, establishes generally accepted accounting principles for valuing and reporting military equipment (e.g., ships, aircraft, combat vehicles, weapons) in federal financial statements. The standard requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades.

The Department has determined that it is not practical at this time to accumulate from internal records the information necessary to value military equipment in accordance with generally accepted accounting principles, because the Department is currently working to revise its accounting processes and systems to support the informational needs of management and compliance with generally accepted accounting principles. In the interim, the Department will base the value of military equipment for financial statement presentation purposes on data provided by the Bureau of Economic Analysis (BEA), Department of Commerce.

The data provided by BEA consist of investment and net book value data for 84 groups of equipment such as aircraft, ships and combat vehicles. BEA uses Department budget data for equipment acquisitions and actual quantities of equipment items delivered to calculate the Department's annual investment in equipment, after recognizing any equipment transfers or war losses. The Department adjusted BEA data to eliminate equipment items that are not accounted for as military equipment, such as spares, munitions, and inventory items, which are accounted for and reported as Inventory and Related Property. For the DON, the BEA analysis provided for an Acquisition value of \$415,310,000 thousand for military equipment, less an Accumulated Depreciation value of \$282,650,000 thousand giving a Net Book Value of \$132,660,000 thousand for military equipment.

Property in the Possession of Contractors.

The value of the DON's General PP&E real property in the possession of contractors is included in the values reported above for the Major Asset Classes of Land and Buildings, Structures, and Facilities. The value of General PP&E personal property (Major Asset Classes of Software and Equipment) does not include all of the General PP&E above the DoD capitalization threshold in the possession of contractors. The net book amount of such property is immaterial in relation to the total General PP&E net book value. Per the DoD FMR Volume 6B Chapter 10, DON is not supplementing General PP&E information with values from the Defense Contract Management Agency's CPMS (DD Form 1662) database. In accordance with an approved strategy with OMB, the GAO and the Inspector General, DoD, the DoD is developing new policies and a contractor reporting process to capture General PP&E information for future reporting purposes for compliance with Federal GAAP.

Other Disclosures

Real Property

The Internet Naval Facility Asset Database Store (iNFADS) is used to derive real property values for financial reporting purposes.

Leasehold Improvements

No leasehold improvements are reported for FY 2003, because the DON's real property system does not track leasehold improvements as a separate component of a building's total value. However, the DON is in the process of surveying commands to determine the value of leasehold improvements.

Software

To ensure that the costs associated with Internal Use Software are correctly recognized and reported, the DON uses the Defense Property Accountability System (DPAS) to capture this information.

Construction-in-Progress (CIP)

CIP balances were obtained from the Facilities Information System (FIS).

Preponderant Use

Per the DoD FMR, Volume 4, Chapter 6, legal ownership is not always the determinant factor when establishing which DoD Component recognizes a particular General PP&E asset for accounting and reporting purposes. If the following four criteria are met, the preponderant user should report the property regardless of legal ownership or funding:

The asset embodies a probable future benefit;

The DoD Component that reports the asset obtains the benefit and controls access to the benefit inherent in the asset;

The transaction or event giving the Component the right to, and control over, the benefit has already occurred; and

The predominantly used assets, taken as a whole, are material to the Component's financial statements.

During the course of FY 2003, DON continued to identify properties whose preponderant users are other DoD Components. Until the Department is able to reconcile with the DoD Components the listing of properties and values, the DON will disclosure in the note. Those entities utilizing material amounts of DON owned property are as follows (dollar values include both acquisition value and improvements meeting the capitalization threshold):

(Amounts in thousands)	FY 2003
Defense Commissary Agency (DeCA)	\$ 50,411,967
DoD Schools	39,471,583
Defense Logistics Agency (DLA)	20,621,503

Reference

See Note Disclosure 1.N. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing General PP&E.

For regulatory discussion on General PP&E, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1012.





NOTE 10.A. ASSETS UNDER CAPITAL LEASE

As of September 30, (Amounts in thousands)	2003	2002
1. Entity as Lessee, Assets Under Capital Lease:		
A. Land and Buildings	\$ 0	\$ 0
B. Equipment	206	1,116
C. Other	0	0
D. Accumulated Amortization	(60)	(206)
E. Total Capital Leases	\$ 146	\$ 910

2. Description of Lease Arrangements:

Leased assets consist primarily of personal property reported via the DPAS system. Disclosures pertaining to future payments due are provided at Note 15.

3. Other Information Related to Assets Under Capital Lease

Fluctuation and/or Abnormalities

The DON reported a decrease of \$910 thousand, 82 percent, in Equipment Leases and \$146 thousand, 71 percent, in the Accumulated Amortization in FY 2003 when compared with FY 2002. The decrease is due to the expiration of the leases in FY 2003.

Reference

See Note Disclosure 1.Q. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Leases.

NOTE 11. LIABILITIES NOT COVERED AND COVERED BY BUDGETARY RESOURCES

As of September 30, (Amounts in thousands)	2003			2002
	Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total	Not Covered by Budgetary Resources
1. Intra-governmental Liabilities:				
A. Accounts Payable	\$ 1,035,033	\$ 0	\$ 1,035,033	\$ 2,396
B. Debt	0	0	0	127
C. Environmental Liabilities	0	0	0	0
D. Other	554,865	3,305,048	3,859,913	3,024,434
E. Total Intra-governmental Liabilities	\$ 1,589,898	\$ 3,305,048	\$ 4,894,946	\$ 3,026,957
2. Non-Federal Liabilities:				
A. Accounts Payable	\$ 1,742,522	\$ 0	\$ 1,742,522	\$ 0
B. Military Retirement Benefits and Other Employment-Related Actuarial Liabilities	0	1,589,971	1,589,971	1,546,375
C. Environmental Liabilities	0	15,614,424	15,614,424	15,469,073
D. Loan Guarantee Liability	0	0	0	0
E. Other Liabilities	487,621	3,298,341	3,785,962	3,078,597
F. Total Non-Federal Liabilities	\$ 2,230,143	\$ 20,502,736	\$ 22,732,879	\$ 20,094,045
3. Total Liabilities:	\$ 3,820,041	\$ 23,807,784	\$ 27,627,825	\$ 23,121,002

4. Other Information:Fluctuation and/or Abnormalities

An explanation of fluctuations and abnormalities for a particular line is included in the specific note for that asset. See notes 12-17.

Definitions

- Liabilities Not Covered by Budgetary Resources are those liabilities which are not considered covered by realized budgetary resources as of the balance sheet date.
- Liabilities Covered by Budgetary Resources are those that are incurred by the reporting entity which are covered by realized budget resources as of the balance sheet date. Budgetary resources encompass not only new budget authority, but also other resources available to cover liabilities for specified purposes in a given year.
- Available budgetary resources include:
 - (1) new budget authority,
 - (2) spending authority from offsetting collections (credited to an appropriation or fund account),
 - (3) recoveries of unexpired budget authority through downward adjustments of prior year obligations,
 - (4) unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, and
 - (5) permanent indefinite appropriations or borrowing authority, which have been enacted and signed into law as of the balance sheet date, provided that the resources may be apportioned by the OMB without further action by the Congress or without a contingency first having to be met.





Other Disclosures Related to Liabilities Not Covered by Budgetary Resources

Intra-governmental Liabilities – Other (Not covered by Budgetary Resources) includes the following:

(Amounts in thousands)

FECA	\$562,106
Unemployment	49,390
Judgment	49,157
DOD Education Trust	2,228
Liabilities to Treasury	<u>2,642,167</u>
Total	\$3,305,048

Judgment Fund

During FY 2003, the DON made substantial progress in identifying and resolving Judgment Fund liabilities. Amounts recorded in the DON General Fund Judgment Fund include any and all amounts that are also applicable to the Navy Working Capital Fund. This methodology is necessary as current accounting systems cannot distinguish between the two funds. Reporting the Judgment Fund is in compliance with OUSD(C) guidance to resolve any outstanding debt due to the Department of Treasury. The DON is in the process of working with the appropriate Management Commands to obtain documentation that supports the amounts that have been remitted to Department of Treasury, or provide the necessary funding to liquidate the liabilities. DON is working with the Department of Treasury to validate the amounts recorded in this account. On September 30, 2003, the DON reported \$49,157 thousand as the outstanding Judgment Fund liability. Of this amount, \$49,153 thousand is attributed to Navy and \$4 thousand is attributed to Marine Corps.

Liability to Treasury

Unliquidated progress payments and associated accrued interest receivables for contractor debt is reported as an unfunded liability to Department of the Treasury. Collections on this debt will be due and payable to Treasury as the appropriations are in a cancelled status. See Note 5 for further disclosure.

Nonfederal Liabilities – Other (Not covered by Budgetary Resources) includes the following

(Amounts in thousands):

Annual Leave	\$2,269,191
Capital Lease Liabilities	146
Accounts Payable – Cancelled Appropriations	23,238
Military Equipment (Non-nuclear Nonenvironmental Disposal Liabilities)	574,916
Disposal Liabilities for Excess/Obsolete Structures	324,270
Contract Incentive	<u>106,580</u>
Total	\$3,298,341

Note Reference

For additional line item discussion, see:

- Note 8, Direct Loans and/or Loan Guarantee Programs
- Note 12, Accounts Payable
- Note 13, Debt
- Note 14, Environmental Restoration Liabilities, and Environmental Disposal Liabilities
- Note 15, Other Liabilities
- Note 16, Commitments and Contingencies
- Note 17, Military Retirement Benefits and Other Employment Related Actuarial Liabilities.

NOTE 12. ACCOUNTS PAYABLE

As of September 30,	2003			2002
	Accounts Payable	Interest, Penalties, and Administrative Fees	Total	Total
(Amounts in thousands)				
1. Intra-governmental Payables:	\$ 1,035,033	N/A	\$ 1,035,033	\$ 748,278
2. Non-Federal Payables (to the Public):	\$ 1,742,522	\$ 0	\$ 1,742,522	\$ 1,510,329
3. Total	\$ 2,777,555	\$ 0	\$ 2,777,555	\$ 2,258,607

4. Other Information:Fluctuation and/or Abnormalities

Intra-governmental payable increased \$286,755 thousand, 38 percent when compared with FY 2002. Payables with Other Defense Organizations Working Capital Funds increased \$251,939 thousand from FY 2002. Payable with Navy Working Capital Fund increased \$71,752 thousand from the FY 2002 amount. A decrease of \$25,871 thousand in the Other Defense Organizations General Funds, a \$7,006 thousand decrease in Air Force General Funds and a decrease of \$5,528 thousand in Army General Fund offset these increases in payables. The varying needs and execution requirements of the DON, including Operation Iraqi Freedom and subsequent events, generally cause fluctuations in the intra-governmental payables. Additionally, timing differences and buyer side trading partner identification problems that are inherent in DoD accounting systems affect the intra-governmental elimination process. Schedule Part B of the Required Supplementary Information of this report identifies DON's trading partners for FY 2003.

For Nonfederal Accounts Payable in FY 2003 when compared with FY 2002, DON reported an increase of \$232,193 thousand, 15 percent. Effecting this increase were Military Personnel payables increasing by \$470,801 thousand along with Operations and Maintenance in the amount of \$192,133 thousand. A \$197,133 thousand in Procurement non-federal payables and \$133,386 thousand in Military Construction and Family Housing offset these increases. Generally, the overall increase in DON's nonfederal payables can be attributed to the higher level of funding and budget execution.

Definitions

Intra-governmental Accounts Payable consists of amounts owed to other federal agencies for goods or services ordered and received but not yet paid. Interest, penalties and administrative fees are not applicable to intra-governmental payables.

Non-Federal Payables (to the Public) are payments to nonfederal government entities.

Undistributed Disbursements.

Undistributed disbursements are the difference between disbursements/collections recorded at the detailed level to a specific obligation, payable, or receivable in the activity field records versus those reported by the U.S. Treasury via the reconciled DD 1329 and DD1400. This should agree with the undistributed reported on accounting reports (SF 133/ (M) 1002). In-transit payments are payments that have been made for other agencies or entities that have not been recorded in their accounting records.





Intra-governmental Eliminations

For the majority of intra-agency sales the DON's accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, the DON was unable to reconcile intra-governmental accounts payable to the related intra-governmental accounts receivable that generated the payable.

The DoD summary level seller accounts receivables were compared to the DON's accounts payable. An adjustment was posted to the DON'S accounts payable based on the comparison with the accounts receivable of the DoD Components providing goods and services to the DON.

DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intra-governmental transactions is so large that after-the-fact reconciliation can not be accomplished with the existing or foreseeable resources.

Other Disclosures

Abnormal Account Balances

Abnormal Accounts Payable balances may occur because 1) the DON does not always record Accounts Payable upon receipt and acceptance of goods and services; 2) the application of undistributed disbursements; and 3) as a result of the intra-governmental transaction elimination process. Per DoDFMR Vol. 6B, Ch. 13, when an abnormal balance is created, an adjustment to Accounts Payable and expenses should be made accordingly to recognize the shortfall.

For Intra-governmental elimination, adjustments are recorded at the appropriation level, to bring the DON's intra-governmental accounts into agreement with its trading partners' intragovernmental accounts. These elimination process adjustments may also result in abnormal accounts payable and accounts receivable.

The DON has initiated the development of an Accounts Payable Implementation Strategy to improve the recording and reporting of accounts payable. The strategy addresses the overall the DON approach to recording accounts payable, including accounts payable from commercial and intra-governmental sources. Development of the implementation strategy is in its final stages and includes several recommendations for improvements. These address, for example, the timely recording of accounts payable transactions, the proper classification of accounts payable between the government and the public, the identification of intra-governmental trading partners and related transactions, and the support of end-of-period adjusting entries for undistributed disbursements and intra-governmental eliminations.

Reference

See Note Disclosure 1.G. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing accounting for Intra-governmental Activities.

NOTE 13. DEBT

As of September 30,	2003			2002
	Beginning Balance	Net Borrowings	Ending Balance	Ending Balance
(Amounts in thousands)				
1. Public Debt:				
A. Held by Government Accounts	N/A	N/A	N/A	N/A
B. Held by the Public	N/A	N/A	N/A	N/A
C. Total Public Debt	N/A	N/A	N/A	N/A
2. Agency Debt:				
A. Debt to the Treasury	\$ 0	\$ 0	\$ 0	\$ 0
B. Debt to the Federal Financing Bank	0	0	0	0
C. Debt to Other Federal Agencies	0	0	0	127
D. Total Agency Debt	\$ 0	\$ 0	\$ 0	\$ 127
3. Total Debt:	\$ 0	\$ 0	\$ 0	\$ 127
4. Classification of Debt:				
A. Intra-governmental Debt			\$ 0	\$ 127
B. Non-Federal Debt			N/A	N/A
C. Total Debt			\$ 0	\$ 127

5. Other Information Related to DebtFluctuation and/or Abnormalities

The DON reported a decrease of \$127 thousand, 100 percent, in Debt to Other Federal Agencies in FY 2003 when compared with FY 2002 resulting in no amount for Debt to other Federal Agencies being reported. This change is due to the interest payable from DON's contribution to the Education Benefit Trust Fund, which is part of the DoD Military Trust Fund, being moved from the USSGL account 2140, Accrued Interest Payable, to USSGL account 2290, Other Unfunded Employment Related Liability. Therefore, the interest payable from the DON's contribution to the Education Benefit Trust Fund is no longer reported on the Debt to Other Agencies line.

Reference

See Note Disclosure 1.G. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Accounting for Intra-governmental Activities, Public Debt.

For regulatory discussion on Debt, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1015.





NOTE 14. ENVIRONMENTAL LIABILITIES

As of September 30,	2003			2002
	Current Liability	Noncurrent Liability	Total	Total
(Amounts in thousands)				
1. Environmental Liabilities - Non Federal				
A. Accrued Environmental Restoration (DERP funded) Costs:				
1. Active Installations--Environmental Restoration (ER)	\$ 516,113	\$ 2,616,014	\$ 3,132,127	\$ 3,520,838
2. Active Installations--ER for Closed Ranges	14,288	326,978	341,266	349,975
3. Formerly Used Defense Sites (FUDS) -- ER	0	0	0	0
4. FUDS--ER for Transferred Ranges	0	0	0	0
B. Other Accrued Environmental Costs (Non-DERP funds)				
1. Active Installations--Environmental Corrective Action	0	0	0	0
2. Active Installations--Environmental Closure Requirements	0	0	0	0
3. Active Installations--Environ.Response at Active Ranges	0	0	0	0
4. Other	0	0	0	0
C. Base Realignment and Closure (BRAC)				
1. BRAC Installations--Environmental Restoration (ER)	606,278	549,668	1,155,946	1,293,311
2. BRAC Installations--ER for Transferring Ranges	4,707	10,844	15,551	29,896
3. BRAC Installations--Environmental Corrective Action	0	0	0	0
4. Other	0	0	0	0
D. Environmental Disposal for Weapons Systems Programs				
1. Nuclear Powered Aircraft Carriers	0	5,565,000	5,565,000	4,890,000
2. Nuclear Powered Submarines	0	4,888,900	4,888,900	4,888,900
3. Other Nuclear Powered Ships	0	269,100	269,100	269,100
4. Other National Defense Weapons Systems	4,729	241,805	246,534	227,053
5. Chemical Weapons Disposal Program	0	0	0	0
6. Other	0	0	0	0
E. Total Nonfederal Environmental Liabilities:	\$ 1,146,115	\$ 14,468,309	\$ 15,614,424	\$ 15,469,073
2. Total Environmental Liabilities:	\$ 1,146,115	\$ 14,468,309	\$ 15,614,424	\$ 15,469,073

3. Information Related to Environmental Liabilities:

Fluctuation and/or Abnormalities

Accrued Environmental Restoration – The DON reported a decrease of \$388,711 thousand, 11 percent, for Accrued Environmental Restoration at active installations when compared to FY 2002. The decrease is a result of adjusted predictions using more conservative estimates that approximate the expected rate of execution.

BRAC Installations – Environmental Restoration (ER) and ER for Transferring Ranges. The DON reported a decrease of \$ 137,365 thousand, 11 percent and \$14,345 thousand, 48 percent, for BRAC-ER and ER for Transferring Ranges, respectively in FY 2003 when compared to FY 2002. The decrease is a result of adjusted predictions using more conservative estimates that approximate the expected rate of execution.

DON reported an increase of \$675,000 thousand, 14 percent, in Nuclear Powered Aircraft Carriers in FY 2003 compared with FY 2002. The increase in this area is a result of adding the environmental liability of an aircraft carrier, the Ronald Reagan, and an adjustment for inflation.

Other Information Related to Environmental Liabilities

Environmental Restoration (DERP Funded) Cost Liabilities: For FY 2003, the DON estimated and reported \$3,473,393 thousand for environmental restoration liabilities. This amount is comprised of \$ 3,132,127 thousand in Active Installations - Environmental Restoration (ER) liabilities and \$ 341,266 thousand in Active Installations – ER for Closed Ranges liabilities, which represents Unexploded Ordnance Cost (UXO) related to twelve sites. The DoD FMR, Volume 6B, Chapter 10 requires that “any estimate produced must be based on site specific information and use cost models validated in accordance with DoD instruction 5000.61.” The DON plans to support this requirement and continue validating its range inventory and pursuing the process of obtaining valid cost estimates for each range.

Other Accrued Environmental Costs (Non-DERP funds): The DON developed guidance for the DON Major Commands to use as they begin to identify site data and develop estimates for the DON’s “ongoing” operations. The DON continued review of program areas such as solid waste management unit cleanup, landfill closure, permitted facilities, removal, replacement, retrofill, and/or disposal of PCB transformers, underground storage tank remedial investigation and closure. For these areas the DON has identified an estimated total potential long-term liability of \$21,063 thousand with the largest item being underground storage tank corrective action. In addition to cleanup costs associated with ongoing operations, the Kaho’Olawe Island Trust Fund provides for cleanup of Kaho’Olawe Island. Congress initially set a funding limit of \$400,000 thousand with annual execution of \$25,000 thousand. Further investigation is needed prior to recognizing an estimate on the financial statements for cleanup of Kaho’Olawe Island.

Base Realignment and Closure (BRAC): For FY 2003, the DON estimated and reported \$ 1,171,497 thousand for BRAC funded environmental restoration liabilities. This amount includes \$ 1,155,946 thousand for environmental restoration (ER) and \$ 15,551 thousand for transferring ranges. It includes military munitions, chemical residues from military munitions, and munitions scrap at locations on or associated with a military range on a BRAC installation.

Environmental Disposal for Weapons Systems Programs: The DON reported an environmental disposal liability for Weapons Systems Programs of \$ 10,969,534 thousand FY 2003. This amount includes nuclear powered aircraft carriers of \$ 5,565,000 thousand, nuclear powered submarines of \$ 4,888,900 thousand, other nuclear powered ships of \$269,100 thousand and other national defense weapons systems of \$246,534 thousand. The liability amount associated with nuclear powered submarines and nuclear powered ships did not change from FY 2002 to FY 2003.

Methodology Used to Estimate Environmental Liabilities

Accrued Environmental Restoration (DERP Funded) Costs:

Accrued Environmental Restoration Activity (ER): Accrued restoration (cleanup) liabilities represent the cost to correct past environmental problems that are funded under the Defense Environmental Restoration Program in accordance with “Management Guidance for the DERP,” and “Accrued Environmental Restoration (Cleanup) Liabilities,” Chapter 14 of Volume 4 of the DoD FMR. These liabilities relate to PP&E, including acquired land and Stewardship Land, as those major asset categories are described in Chapter 6 of Volume 4 of the DoD FMR. Environmental restoration activities may be conducted at operating installations, at FUDS, at Closed, Transferred, and Transferring Ranges. Environmental restoration measurements involve the use of cost estimates that consider, on a current cost basis, the anticipated costs of the level of effort required to affect the restoration, as well as applicable legal and/or regulatory requirements. Program management and support costs are included in the estimates. The estimates are based on the DON’s cost-to-complete (CTC) module of the DON Normalization of Data System (NORM). Certification of the CTC module was completed early in FY 2002. Such cost estimates are based on the current technology available.





Site inventory and estimated cost data prepared for the DERP report to the Congress was used by the DON as the baseline for environmental restoration (cleanup) liability measurement (i.e., the current cost to acquire the required services). The Accrued Environmental Restoration (Cleanup) Costs do not include the costs of environmental compliance, pollution prevention, conservation activities, contamination or spills associated with current operations, or treaty obligations, all of which are accounted for as part of ongoing operations. The Department of the Navy's Environmental Restoration (ER,N) Program includes 3,668 clean-up sites while those installations covered by Base Realignment and Closure (BRAC) funding includes 1,020 clean-up sites.

Active Installations – Environmental Restoration For Closed Ranges: This represents the environmental liabilities associated with the identification, investigation and removal and remedial actions to address environmental contamination at ranges that are closed or will be closed prior to September 30, 2002. The contamination may include munitions, chemical residues from military munitions and munitions scrap at ranges on active installations that pose a threat to human health or the environment. The amount reported is the portion of the liability that can be estimated based on site level investigations and characterizations. The estimate produced is based on site specific information and use cost models validated in accordance with DoD Instruction 5000.61. Total liabilities (cost-to-complete) are not estimated until there is sufficient site specific data available to estimate the total liability. Beginning in FY 2001, the Department began an inventory of closed ranges and transferring ranges under the Military Munitions Response Program (MMRP) or UXO program. The inventory was completed September 2002 and contains 196 closed ranges at active installations and 16 transferring ranges at BRAC sites.

Information regarding changes

Survey data of the Department of the Navy Environmental Restoration Program cost estimate changes for sites that had over 10 percent change or 500 thousand indicates diverse reasons for change in estimates. Multiple reasons may apply both as plus-ups and deducts at any site. The reasons for changes are estimation changes (26 percent), regulatory changes (60 percent), and technical changes (15 percent). Reasons for changes in estimation are as follows: cost-to-complete (CTC) overlooked or previously unknown, better site characterization with sampling, cost avoidance rerun CTC, re-estimation based on different assumptions and/or escalation, and re-estimation of costs based on lessons learned. Reasons for changes in the area of regulatory are as follows: addition of range rule/munitions requirements, additional or extended long-term monitoring requirements or 5 year reviews, no further action agreement with regulator, and risk based corrective action. Reasons for changes in the area of technical are as follows: additional contamination level reduction with sampling, additional or extended remedial action operation, additional sites and incomplete site data, and technical solution changed.

Reference

The following is a summary of significant laws that affect the Department's conduct of environmental policy and regulations.

The National Environmental Policy Act (NEPA) of 1970 requires the Department to consider the environmental impacts of proposed actions in the decision making process. Per DON regulations, the action proponent will determine the level or amount of NEPA documentation required. The Resource Conservation and Recovery Act (RCRA) of 1976 as amended by the Hazardous and Solid Waste Amendments of 1984 (HSWA), was the first comprehensive federal effort to deal with safe disposal of all types of hazardous wastes, and provides for "cradle to grave" tracking of hazardous wastes. Permits are required for treatment, storage or disposal. Requirements for underground storage tanks (USTs) are also contained in RCRA.

The Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), commonly referred to as the Superfund, provided for Federal agencies authority to respond to the release or the substantial threat of release of hazardous substances into the environment. CERCLA was amended several times one of which was the Community Environmental Response Facilitation Act of 1992. The Department must identify real property on each facility that is not contaminated and that offers the greatest opportunity for expedited reuse and redevelopment. When property is transferred, BRAC or non-BRAC, the Department is still responsible for any remediation or corrective action or any response action found to be necessary after the transfer.

For the nuclear powered aircraft carriers, submarines, and other nuclear ships, the following significant laws affect the Department's conduct of environmental policy and regulations. The Atomic Energy Act of 1954, as amended, assures the proper management of source, special nuclear, and byproduct material. As in all cases with nuclear power, the Department coordinates all actions with the Department of Energy. The Nuclear Waste Policy Act of 1982 required all owners and generators of high-level nuclear waste and spent nuclear fuel, to pay their respective shares of the full cost of the program. Finally, the Low Level Radioactive Waste Policy Amendments Act of 1986, provides for the safe and efficient management of low-level radioactive waste.

For additional information concerning applicable laws and regulations, methodology for assigning estimated cleanup costs, and description of sites and technology used for cleanup consult the the "FY 2002 Defense Environmental Restoration Program Annual Report to Congress."

For regulatory discussion on Environmental Liabilities, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1016.





NOTE 15.A. OTHER LIABILITIES

As of September 30, (Amounts in thousands)	2003			2002
	Current Liability	Noncurrent Liability	Total	Total
1. Intra-governmental:				
A. Advances from Others	\$ 0	\$ 0	\$ 0	\$ 0
B. Deferred Credits	0	0	0	0
C. Deposit Funds and Suspense Account Liabilities	223,225	0	223,225	250,075
D. Resources Payable to Treasury	0	0	0	930
E. Disbursing Officer Cash	282,996	0	282,996	130,664
F. Nonenvironmental Disposal Liabilities:				
(1) National Defense PP&E (Nonnuclear)	0	0	0	0
(2) Excess/Obsolete Structures	0	0	0	0
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
G. Accounts Payable-- Cancelled Appropriations	0	0	0	0
H. Judgement Fund Liabilities	49,157	0	49,157	105,842
I. FECA Reimbursement to the Department of Labor	248,250	313,855	562,105	566,145
J. Capital Lease Liability	0	0	0	0
K. Other Liabilities	2,740,858	1,572	2,742,430	2,435,847
L. Total Intra-governmental Other Liabilities	\$ 3,544,486	\$ 315,427	\$ 3,859,913	\$ 3,489,503
2. Non-Federal:				
A. Accrued Funded Payroll and Benefits	\$ 394,706	\$ 0	\$ 394,706	\$ 1,011,367
B. Advances from Others	0	0	0	1,135
C. Deferred Credits	0	0	0	0
D. Loan Guarantee Liability	0	0	0	0
E. Liability for Subsidy Related to Undisbursed Loans	0	0	0	0
F. Deposit Funds and Suspense Accounts	0	0	0	0
G. Temporary Early Retirement Authority	2,933	0	2,933	2,209
H. Nonenvironmental Disposal Liabilities:				
(1) National Defense PP&E (Nonnuclear)	0	574,916	574,916	566,153
(2) Excess/Obsolete Structures	37,733	286,537	324,270	332,575
(3) Conventional Munitions Disposal	0	0	0	0
(4) Other	0	0	0	0
I. Accounts Payable--Cancelled Appropriations	23,238	0	23,238	68,833
J. Accrued Unfunded Annual Leave	2,269,191	0	2,269,191	2,031,961
K. Accrued Entitlement Benefits for Military Retirees and Survivors	0	0	0	0
L. Capital Lease Liability	146	0	146	910
M. Other Liabilities	124,982	71,580	196,562	170,344
N. Total Non-Federal Other Liabilities	\$ 2,852,929	\$ 933,033	\$ 3,785,962	\$ 4,185,487
3. Total Other Liabilities:	\$ 6,397,415	\$ 1,248,460	\$ 7,645,875	\$ 7,674,990

4. Other Information Related to Other Liabilities:

Fluctuation and/or Abnormalities

Intra-governmental Other Liabilities. The DON reported a decrease of \$930 thousand, 100 percent, in Resources Payables To Treasury (line 1D) in FY 2003 when compared to FY 2002. The decrease is due to the reduction in Interest Payable to Treasury for Marine Corps. The DON also reported an increase of \$152,332 thousand, 117 percent, in Disbursing Officer Cash (line 1E) in FY 2003 when compared to FY 2002. The increase is the result of deployment of Operation IRAQI Freedom. In addition, the DON reported a decrease of \$56,685 thousand, 54 percent, in the Judgment Fund Liabilities (line 1H) in FY 2003. The decrease is due to the aggressive effort of the DON to reconcile and resolve claims under the Contract Dispute Act. The DON also reported an increase of \$306,583 thousand, 13 percent, in Other Liabilities (line 1K) in FY 2003. The increase of \$56,839 thousand is due to the interest from pending litigation.

Nonfederal Other Liabilities. The DON reported a decrease of \$616,661 thousand, 61 percent in Accrued Funded Payroll and Benefits in FY 2003 when compared to FY 2002. The decrease is due to the timing difference between the end of the pay period and the calendar quarter end. There is also a decrease of \$1,135 thousand, 100 percent, in Advances from Others in FY 2003 is due to unfilled custom orders with advance being filled/earned prior to September 30, 2003. Accounts Payable – Cancelled Appropriations decreased \$45,595 thousand, 66 percent, in FY 2003 due to better management of Accounts Payable in the canceling years. The FY 98 canceling years are totally independent from the FY 97 canceling years. Capital Leases Liability decreased \$764 thousand, 84 percent, is due to the expiration of leases.

Other Disclosures

Intra-governmental Other Liabilities

Judgment Fund (Line 1.H)

The DON must reimburse the Department of the Treasury for payments made from the Judgment Fund on its behalf. These payments are a result of claims being resolved under the Contracts Dispute Act. Great strides have been made in reconciling and identifying the outstanding Judgment Fund Liability. Since the beginning of FY 2003, the DON has reduced the Judgment Fund from \$105,842 thousand to \$49,157 thousand as of September 30, 2003. However, per the Department of the Treasury's records the DON liability for the Judgement Fund as of September 30, 2003 was \$64,439 thousand. In several cases a settlement agreement was entered into rather than a judgment rendered and therefore, the DON believes it has no legal authority to reimburse the Judgment Fund. This fact resulted in a \$15,282 thousand difference between Treasury's and the DON's Judgment Fund balance.

Other Liabilities (Line 1.K.) includes the following:

(Amounts in thousands)	<u>Total</u>
Liability to Treasury & Others	\$2,644,396
Unemployment	50,961
Employment Benefit	47,073
Total Intragovernmental Other Liabilities	<u>\$2,742,430</u>

With respect to the major fiduciary balances, the DON must reconcile with the DOL and OPM. In FY 2003, the DON reported the following Intra-governmental Fiduciary liabilities: \$562,106 thousand in FECA, \$50,961 thousand in Unemployment, \$47,073 thousand in Employment Benefit, and \$49,157 thousand in Judgment Fund.

Nonfederal Other Liabilities

Nonenvironmental Disposal Liability Disclosure

The DON has agreed to recognize the nonenvironmental disposal liability for nuclear powered assets when the asset is initially placed in service. The nonenvironmental cost are included with the environmental disposal costs and reported in Note 14.





Excess/Obsolete Structures

Included in the reported amounts is the current cost basis estimates of disposing of, or demolishing, approximately \$324,270 thousand worth of square feet of excess/obsolete structures at active installations, in accordance with disposal plans directed by Defense Reform Initiative Directive No. 36 Dated May 5, 1998. The expected completion date is FY 2003. This target includes both the Navy and the Marine Corps real property assets.

Other Liabilities (Line 2.M.) includes \$89,982 thousand Contract Holdbacks and \$106,580 thousand Contract Incentives.

Reference

See Note Disclosure 1.S. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Contingencies and Other Liabilities.

NOTE 15.B. CAPITAL LEASE LIABILITY

As of September 30, (Amounts in thousands)	2003				2002
	Asset Category				Total
	Land and Buildings	Equipment	Other	Total	
1. Future Payments Due:					
A. Fiscal Year 2004	\$ 0	\$ 146	\$ 0	\$ 146	\$ 910
B. Fiscal Year 2005	0	0	0	0	0
C. Fiscal Year 2006	0	0	0	0	0
D. Fiscal Year 2007	0	0	0	0	0
E. Fiscal Year 2008	0	0	0	0	0
F. After 5 Years	0	0	0	0	0
G. Total Future Lease Payments Due	\$ 0	\$ 146	\$ 0	\$ 146	\$ 910
H. Less: Imputed Interest Executory Costs	0	0	0	0	0
I. Net Capital Lease Liability	\$ 0	\$ 146	\$ 0	\$ 146	\$ 910
2. Capital Lease Liabilities Covered by Budgetary Resources:				\$ 146	\$ 910
3. Capital Lease Liabilities Not Covered by Budgetary Resources:				\$ 0	\$ 0

4. Other Information Related to Capital Lease Liability

Fluctuation and/or Abnormalities

The DON reported \$764 thousand, 84 percent, decrease in Capital Lease Liability in FY 2003 compared with FY 2002 is due to the expiration of leases.

Other Information Related to Capital Lease Liability

The liabilities associated with capital leases are captured in legacy systems and are often not recorded. The DON has recognized a liability equal to the net value of the assets (i.e. gross value less accumulated amortization). The resulting liability was recorded as a payment due in FY 2003. The proper breakout of future payments to appropriate years will be done when a process for capturing lease liabilities is implemented.

Reference

See Note Disclosure 1.Q. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Leases.

For regulatory discussion on Capital Lease Liability, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1017.

NOTE 16. COMMITMENTS AND CONTINGENCIES**Other Information Related to Commitments and Contingencies**

For FY 2003, the DON is subject to various asserted claims. These claims are in various stages ranging from investigation to appeal. While remaining unresolved as of the close of FY 2003, prior experience affords the DON the ability to forecast the possible loss associated with the claims. It is to be noted that most claims are settled for less than the amount initially claimed, dismissed outright, or fail to materialize. As of September 30, 2003, contingent liabilities consist of an estimated \$103,936 thousand resulting from contractual actions; and approximately \$26,282 thousand for employee related actions; \$5,517 thousand for civil litigation; \$69,733 thousand for foreign tax; and \$4,000 thousand for site closure costs. In addition to contingent liabilities, contractual commitments for cancelled appropriations consist of an estimated \$9,892 thousand.

Category	\$ in thousands
Contractual Actions	\$ 103,936
Employee Related Actions	\$ 26,282
Civil Litigation	\$ 5,517
Foreign Tax	\$ 69,733
Site Closure Costs	\$ 4,000
Total	\$ 209,468,087

In addition to contingent liabilities, contractual commitments for cancelled appropriations consist of an estimated \$ 9,892 thousand.

Category	\$ in thousands
Contractual Commitments	\$ 9,892
Total	\$ 9,982

Reference

See Note Disclosure 1.S. – Significant Accounting Policies for additional discussion on financial reporting requirements and DoD policies governing Contingencies and Other Liabilities.

For regulatory discussion on Commitment and Contingencies, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1018.





NOTE 17. MILITARY RETIREMENT BENEFITS AND OTHER EMPLOYMENT RELATED ACTUARIAL LIABILITIES

As of September 30, (Amount in Thousands)	2003			2002
	Actuarial Present Value of Projected Plan Benefits	Assumed Interest Rate	(Less: Assets Available to Pay Benefits)	Unfunded Actuarial Liability
1. Pension and Health Benefits:				
A. Military Retirement Pensions	\$ 0		\$ 0	\$ 0
B. Military Retirement Health Benefits	0		0	0
C. Medicare-Eligible Retiree Benefits	0		0	0
D. Total Pension and Health Benefits	\$ 0		\$ 0	\$ 0
2. Other				
A. FECA	\$ 1,589,971		\$ 0	\$ 1,589,971
B. Voluntary Separation Incentive Programs	0		0	0
C. DoD Educational Benefits Fund	0		0	0
D. Total Other	\$ 1,589,971		\$ 0	\$ 1,589,971
3. Total Military Retirement Benefits and Other Employment Related Actuarial Liabilities:	\$ 1,589,971		\$ 0	\$ 1,589,971

4. Other Information Pertaining to Military Retirement Benefits and other Employment Related-Related Actuarial Liabilities:

Reporting of Military Retirement Benefits by the Military Retirement Fund (MRF). The portion of the military retirement benefits actual liability applicable to the DON is reported on the financial statements of MRF.

Reporting of Liability Pertaining to Military Health Benefits Compensation. Health benefits are funded centrally at the DoD level. As such, the portion of the health benefits actuarial liability that is applicable to DON is reported only on the DoD Agency-wide financial statements.

Federal Employees Compensation Act (FECA).

- Actuarial Cost Method Used:
- Assumptions:

Future Workers' Compensation

The DON's actuarial liability for workers' compensation benefits is developed by DOL and provided to DON at the end of each fiscal year. The liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns to predict the ultimate payments. The projected annual benefit payments are then discounted to the present value using the OMB's economic assumptions for 10-year U.S. Treasury notes and bonds. Cost of living adjustments and medical inflation factors are also applied to the calculation of projected future benefits. Interest rate assumptions utilized for discounting were as follows:

FY 2003

5 percent in Year 1

5 percent in Year 2 and thereafter

Inflation factors were applied to provide more specifically the effects on the liability for future workers' compensation benefits. Cost of living adjustments (COLAs) were used as a wage inflation factor and consumer price index medical (CPIMs) were used as medical inflation factors. These factors were also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various charge back years (CBY) were as follows:

CBY	COLA	CPIM
2003	3 percent	4 percent
2004	3 percent	4 percent
2005+	3 percent	4 percent

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on two tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage change in the actual payments, and (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection.

The estimate was allocated between General Fund and Navy Working Capital Fund using a percentage based on the number of civilian employees taken from the Navy Budget Tracking System. The following table details the numbers used in support of the allocation:

	Personnel	Allocation %
DON General Fund	103,318	53%
DON Working Capital Fund	91,704	47%
Total	195,022	100%

Voluntary Separation Incentive (VSI) Program. The Voluntary Separation Incentive (VSI) Fund (recorded on the books of the U.S. Treasury) is used to accumulate funds to finance, on an actuarially sound basis, the liabilities of the DoD incurred under this program. The VSI benefit is an annual annuity paid to members who have separated under this program, and is paid for a period of time equal to twice the members' years of service. These benefits are paid by the VSI fund, which receives contributions from the services from their military personnel accounts. Contributions amounts are determined by the DoD, Office of the Actuary in conjunction with the OUSD(C), based on a comparison of liabilities to assets.

DoD Education Benefits Fund. The DoD Education Benefits Fund is designed to accumulate funds for the educational programs described under Title 10 United States Code, section 2006. This program promotes the recruitment and retention of members for the All-Volunteer Forces program and the Total Force Concept of the Armed Forces and aids in the readjustment of members of the Armed Forces to civilian life after separation from military service.

Reference

For regulatory discussion on Military Retirement Benefits and Other Employee Related Actuarial Liabilities, see Department of Defense Financial Management Regulation, Volume 6B, Chapter 10, paragraph 1019.





NOTE 18. UNEXPENDED APPROPRIATIONS

As of September 30, (Amounts in thousands)	2003	2002
1. Unexpended Appropriations:		
A. Unobligated, Available	\$ 2,169,736	\$ 10,567,040
B. Unobligated, Unavailable	998,235	1,318,416
C. Unexpended Obligations	47,613,208	52,888,872
D. Total Unexpended Appropriations	\$ 50,781,179	\$ 64,774,328

Other Information Pertaining to Unexpended Appropriations:

Fluctuation and/or Abnormalities

The DON reported a decrease of \$13,993,149 thousand, 22 percent, on Total Unexpended Appropriations in FY 2003 when compared with FY 2002. The decrease in Unobligated, Available and Unavailable and Unexpended Obligations is a result of improved program execution. The Unobligated, Available is subject to obligations in future years for those multi-year accounts and therefore, is still available for obligating.

NOTE 19.A. GENERAL DISCLOSURES RELATED TO THE STATEMENT OF NET COST

Fluctuation and/or Abnormalities

The DON reported an increase of \$8,589,165 thousand, 8 percent, in the Net Cost of Operations FY 2003 when compared to FY 2002. Effecting this increase was the implementation of the new accounting standard SFFAS No. 23 "Eliminating the Category of National Defense Property, Plant, and Equipment." The standard requires the capitalization and depreciation of the cost of military equipment, including the cost of modifications and upgrades. The DON reported Net Book Value of \$132,660,000 thousand for military equipment and recorded current period depreciation expenses of \$16,500,000 thousand in FY 2003.

Intra-governmental Gross Costs increased by \$5,231,484 thousand, 17 percent, over FY 2002, and is coupled with an increase in Intra-governmental Earned Revenue of \$1,977,035 thousand, 163 percent. Similarly, Gross Costs with the public increased \$5,532,763 thousand, 7 percent, over FY 2002 and is coupled with an increase in Earned Revenue from the public of \$198,047 thousand, 12 percent. The result was an overall increase in the Net Cost of operations of \$8,589,165 thousand, 8 percent, which is driven by the increased level of the DON's execution of program budgets. DON program costs showed the following major fluctuations from FY 2002: Military Personnel costs increased \$6,439,690 thousand, 22 percent; Operations and Maintenance costs increased \$7,899,491 thousand, 23 percent; RDT&E costs increased \$1,822,672 thousand, 18 percent; while Procurement costs decreased \$10,559,703 thousand, 38 percent over FY 2002 execution levels. Another factor represents \$2,475,541 thousand in costs for trading partner difference which must be accrued on the DON's book at the component level and are not identifiable to any one program.

Other Disclosures Related to the Statement of Net Cost

The Consolidated Statement of Net Cost in the federal government is unique because its principles are driven on understanding the net cost of programs and/or organizations that the federal government supports through appropriations or other means. This statement provides gross and net cost information that can be related to the amount of output or outcome for a given program and/or organization administered by a responsible reporting entity.

The amounts presented in the Statement of Net Cost (SoNC) are based on obligations and disbursements and therefore may not in all cases report actual accrued costs. The DON generally records transactions on a cash basis and not an accrual basis as is required by Federal GAAP. Therefore, the DON systems do not capture actual costs.

As such, information presented in the SoNC is based on budgetary obligations, disbursements, and collection transactions, as well as non-financial feeder systems; then adjusted to record known accruals for major items such as payroll expenses, accounts payable, and environmental liabilities.

NOTE 19.B. GROSS COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION

Not Applicable.

NOTE 19.C. GROSS COST TO GENERATE INTRA-GOVERNMENTAL REVENUE AND EARNED REVENUE (TRANSACTIONS WITH OTHER FEDERAL—NON-DoD—ENTITIES) BY BUDGET FUNCTIONAL CLASSIFICATION

Not Applicable.

NOTE 19.D. IMPUTED EXPENSES

As of September 30, (Amount in thousands)	2003	2002
1. Civilian (e.g., CSRS/FERS) Retirement	\$ 231,585	\$ 183,704
2. Civilian Health	232,822	235,713
3. Civilian Life Insurance	904	880
4. Military Retirement Pension	0	0
5. Military Retirement Health	0	0
6. Judgment Fund	44,408	104,997
7. Total Imputed Expenses	<u>\$ 509,719</u>	<u>\$ 525,294</u>

Other Information Related to Imputed Expenses

The DON financial statements have recognized an imputed expense for civilian employee pensions, life insurance, and health benefits in the Statement of Net Cost. Imputed expenses for employee benefits were calculated using cost factors provided by OPM applied against gross basic pay for all categories of civilian service employees. The gross basic pay amounts were extracted directly from the Defense Civilian Pay System (DCPS).

NOTE 19.E. BENEFIT PROGRAM EXPENSES

Not Applicable.

NOTE 19.F. EXCHANGE REVENUE

Disclosures Related to Exchange Revenue: None.

NOTE 19.G. AMOUNTS FOR FOREIGN MILITARY SALES (FMS) PROGRAM PROCUREMENTS FROM CONTRACTORS

Not Applicable.





NOTE 19.H. STEWARDSHIP ASSETS

Other Information Related to Stewardship Assets

Stewardship assets include Heritage Assets, Stewardship Land, Non-Federal Physical Property, and Investments in Research and Development. The current year cost of acquiring, constructing, improving, reconstructing, or renovating stewardship assets are included in the Statement of Net Cost.

NOTE 19.I. INTRA-GOVERNMENTAL REVENUE AND EXPENSE

The majority of DON accounting systems do not capture trading partner data at the transaction level in a manner that facilitates trading partner aggregations. Therefore, DON was unable to reconcile intra-governmental revenue balances with its trading partners. DoD intends to develop long-term systems improvements that will include sufficient up-front edits and controls to eliminate the need for after-the-fact reconciliations. The volume of intra-governmental transactions is so large that after-the-fact reconciliation can not be accomplished with existing or foreseeable resources.

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

As of September 30, (Amounts in thousands)	Cumulative Results of Operations 2003	Unexpended Appropriations 2003	Cumulative Results of Operations 2002	Unexpended Appropriations 2002
1. Prior Period Adjustments Increases (Decreases) to Net Position Beginning Balance:				
A. Changes in Accounting Standards	\$ 152,557,286	\$ 0	\$ 0	\$ 0
B. Errors and Omissions in Prior Year				
Accounting Reports	0	0	(27,802,492)	1,553,324
C. Other Prior Period Adjustments	0	0	0	0
D. Total Prior Period Adjustments	\$ 152,557,286	\$ 0	\$ (27,802,492)	\$ 1,553,324
2. Imputed Financing:				
A. Civilian CSRS/FERS Retirement	\$ 231,585	\$ 0	\$ 183,704	\$ 0
B. Civilian Health	232,822	0	235,713	0
C. Civilian Life Insurance	904	0	880	0
D. Military Retirement Pension	0	0	0	0
E. Military Retirement Health	0	0	0	0
F. Judgment Fund	44,408	0	104,997	0
G. Total Imputed Financing	\$ 509,719	\$ 0	\$ 525,294	\$ 0

3. Other Information Related to the Statement of Changes in Net Position.

The changes in accounting standards is a result of implementing the Statement of Federal Financial Accounting Standards No. 23, "Eliminating the Category National Defense Property, Plant, and Equipment." Implementing this new standard resulted in a prior period adjust of \$152,557,286 thousand that represents military equipment and recognizing conventional missiles and torpedoes as operating, materials, and supplies.

Other Disclosures

Imputed Financing

The DON financial statements have recognized an imputed financing source for civilian employee pensions, life insurance, and health benefits in the Statement of Net Cost. Imputed financing sources for employee benefits were calculated using cost factors provided by OPM applied against gross basic pay for all categories of civilian service employees. The gross basic pay amounts were extracted directly from the Defense Civilian Pay System (DCPS).

Judgment Fund

Treasury provided information related to amounts paid for Judgment Fund liabilities on behalf of the DON, which the DON may or may not be required to repay. Judgment Fund payments made out of the following Treasury appropriations do not require reimbursement, and therefore represent imputed financing to the DON: 20X1740, 20X1741, and 20X1742. Only those payments made from Treasury appropriation 20X1743 are required to be repaid by DON.

NOTE 21.A. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

As of September 30, (Amounts in thousands)	2003	2002
1. Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period	\$ 64,855,940	\$ 61,642,520
2. Available Borrowing and Contract Authority at the End of the Period	739	0

Information Related to the Statement of Budgetary Resources

The Net Amount of Budgetary Resources Obligated for Undelivered Orders on Note 21A is greater than Undelivered Orders (Line 14C) on the SBR. The reason for the variance is due to USSGL account 4802, Undelivered Orders-Paid, being reflected in Note 21 A but not mapped to the SBR line 14C.

The difference of \$36,740 thousand between the SBR Appropriations Received when compared with the Statement of Change of Net Position Appropriations Received is due to the Trust Fund.

Other Disclosures

Obligations Incurred includes \$124,497,950 thousand Direct Obligations and \$8,079,881 thousand Reimbursable Obligations. Contract Authority of \$739 thousand represents a line of credit established in the Naval Academy Gift and Museum Fund for museum renovation.

Due to accounting system deficiencies, intra-governmental transactions were not eliminated for the presentation of a Consolidated Statement of Budgetary Resources (SBR).

In FY 2003, DoD treated Foreign Military Sales (FMS) Trust Fund transactions as nonfederal, and are presented as such in the Balance Sheet (BS) and the Statement of Net Cost. Accounts Receivable and Revenues related to FMS are recognized in the SBR. Therefore, reconciling differences exist between the SBR and the BS. OUSD(C) Accounting Policy is currently researching the issue to determine the proper treatment of FMS Trust Fund transactions to ensure proper reporting.





NOTE 21.B. DISCLOSURES RELATED TO PROBLEM DISBURSEMENTS, IN-TRANSIT DISBURSEMENTS AND SUSPENSE/BUDGET CLEARING ACCOUNTS

As of September 30, (Amounts in thousands)	2001	2002	2003	(Decrease)/Increase from 2002 to 2003
1. Total Problem Disbursements				
A. Absolute Unmatched Disbursements	\$ 366,000	\$ 352,000	\$ 144,000	\$ (208,000)
B. Negative Unliquidated Obligations	69,000	41,000	42,000	1,000
2. Total In-transit Disbursements, Net	\$ 65,256	\$ 51,551	\$ (11,621)	\$ (63,172)

3. Other Information Related to Problem Disbursements and In-transit Disbursement :

Definitions

Absolute value is the sum of the positive values of debit and credit transactions without regard to the sign.

UMDs occur when payments do not match to a corresponding obligation in the accounting system.

NULOs occur when payments have a valid obligation but the payment is greater than the amount of the obligation recorded in the official accounting system. These payments use available funds for valid receiving reports on delivered goods and services under valid contracts.

In-Transits represents the net value of disbursements and collections made by a DoD disbursing activity on behalf of an accountable activity but not yet posted in an accounting system.

Other Disclosures

Unmatched Disbursements, Negative Unliquidated Obligations, and In-transit Disbursement, Net represent disbursements of the DON funds that have been reported by a disbursing station to the Department of the Treasury but have not yet been precisely matched against the specific source obligation giving rise to the disbursements. For the most part, these payments have been made using available funds and are based on valid receiving reports for goods and services delivered under valid contracts.

The elimination of both Problem Disbursements and In-transits is one of the highest financial management priorities of the OUSD(C). Problem Disbursements and In-transits represent a significant financial management concern since: (1) accuracy of accounting reports is affected; (2) availability of funds is more difficult to determine; and (3) the required research and resolution process becomes much more labor intensive as the age of the problem disbursements increase. As a result the DON has efforts underway to improve the systems and to resolve all previous problem disbursements and process all in-transit disbursements.

4. Suspense/Budget Clearing Accounts

As of September 30, Account	2001	2002	2003	(Decrease)/ Increase from 2002 to 2003
F3875	\$ 43,344	\$ 112,731	\$ (262,678)	\$ (375,409)
F3880	(1,749)	2,510	(3,631)	(6,141)
F3882	0	23,965	(4,172)	(28,137)
F3885	801,469	445,921	(412,370)	(858,291)
F3886	(1)	622	(2)	(624)
Total	\$ 843,063	\$ 585,749	\$ (682,853)	\$ (1,268,602)

5. Other Information Related to Suspense/Budget Clearing Accounts

The DON has made a concerted effort to reduce balances in the suspense and budget clearing accounts related to disbursements that are disclosed on line 4 of this note. Additionally, the DON is establishing policies and procedures to ensure accurate and consistent use of these accounts. The information presented indicates the significant reductions the DON has achieved in the various suspense/ budget clearing accounts. On September 30th of each fiscal year, all of the uncleared suspense/budget clearing account balances are reduced to zero (as required by the Department of the Treasury) by transferring the balances to proper appropriation accounts. On October 1st of the following year, the uncleared suspense/clearing account balances are only reestablished for transactions that were less than 60 days old at the end of the FY (excluding transactions dated before January 1, 2001).

The suspense accounts F3875/3885/3886 temporarily hold collections or disbursements until they can be assigned or identified to a valid appropriation. Each suspense account represents the source of transaction coming from, i.e. Disbursing Officer's (DO) suspense (F3875), Interfund/IPAC (F3885), and Payroll (TSP) (F3886) suspense. DFAS-CL has implemented several initiatives to improve the suspense clearing process and works with DOs to reduce suspense. Matching criteria are currently being developed that will automate the manual process now used to clear Interfund transactions from suspense. These initiatives should result in reduced suspense balances at year-end. The suspense F3880 represents the Treasury checks that have either been lost by the payee and need reissued or never cashed by the payee, cancelled by Treasury and require to be transferred to the original appropriation in accordance to the DoD FMR, Volume 5, Chapter 8. Account F3882 Uniformed Services Thrift Savings Plan was first established in FY 2002, so there will be not be any trend information for FY 2001 and prior.





NOTE 22. DISCLOSURES RELATED TO THE STATEMENT OF FINANCING

Fluctuation and/or Abnormalities

When comparing Statement of Financing for FY 2003 to FY 2002, the variances are a result of report mapping changing from the old format in FY 2002 to the new format in FY 2003.

Budgetary data is not in agreement with proprietary expenses and assets capitalized. This fact causes a difference in net cost between the Statement of Net Cost and the Statement of Financing. Adjustments are posted to the Statement of Financing for these differences.

Other Disclosures

The increase of resources that finance the acquisition of assets is primarily due to the implementation of SFFAS No. 23 "Eliminating the Category of National Defense Property, Plant, and Equipment." Correspondingly, there is also an increase in the reported depreciation for the military equipment.

The Statement of Financing is presented as combined or combining statements rather than consolidated statements due to intra-governmental transactions not being eliminated. Adjustments in funds that are temporarily not available pursuant to Public Law, and those that are permanently not available (included in the "Adjustments" line on the Statement of Budgetary Resources), are not included in "Spending Authority From Offsetting Collections and Adjustments" line on the Statement of Budgetary Resources or on the Statement of Financing.

The Statement of Financing was expanded to further articulate and detail the relationship between new obligations from budgetary accounting and net cost of operation from proprietary accounting. Some items that were reported last year as a single line were subdivided to reflect its components. Several new line items were added to separately identify and further explain the use of resources to finance net obligations or net cost of operations. This change notes key differences between the net obligations and net cost of operations.

NOTE 23. DISCLOSURES RELATED TO THE STATEMENT OF CUSTODIAL ACTIVITY

Not Applicable.

NOTE 24.A. OTHER DISCLOSURES - LEASES

Entity as Lessee - Operating Leases

As of September 30,		2003				2002
(Amounts in thousands)						
B. Future Payments Due:	Land and Buildings	Equipment	Other	Total	Total	
<u>Fiscal Year</u>						
2004	\$ 14,476	\$ 4	\$ 1,116	\$ 15,596	\$	10,934
2005	15,381	93	0	15,474		9,220
2006	17,291	178	0	17,469		9,464
2007	17,355	204	0	17,559		9,619
2008	17,367	204	0	17,571		8,955
After 5 Years	0	0	0	0		0
Total Future Lease Payments Due	\$ 81,870	\$ 683	\$ 1,116	\$ 83,669	\$	48,192

Other Information Related to Entity as Lessee – Operating LeasesFluctuations and/or Abnormalities

The DON reported an increase of \$35,477 thousand, 74%, increase in Operating Leases Future Payment in FY 2003 when compared to FY 2002 is due to additional leases are reported by Commands in FY 2003.

Other Disclosures

The value for lease information is derived from the DON data collection process. This process only provides summary values and no details for each of the leases at this time.

Definitions

Lessee – A person or entity who receives the use and possession of leased property (e.g. real estate or equipment) from a lessor in exchange for a payment of funds.

Operating Lease - A lease which does not transfer substantially all the benefits and risk of ownership. Payments should be charged to expense over the lease term as it becomes payable.

NOTE 24.B. OTHER DISCLOSURES

Not Applicable.







DEPARTMENT OF THE NAVY

**GENERAL FUND SUPPORTING CONSOLIDATING/
COMBINING STATEMENTS**

GENERAL FUND SUPPORTING CONSOLIDATING/
COMBINING STATEMENTS



Department of Defense
 Department of the Navy
CONSOLIDATING BALANCE SHEET
 As of September 30, 2003 and 2002
 (\$ in thousands)

	<u>Navy</u>	<u>Marine Corps</u>	<u>Component Level</u>
ASSETS (Note 2)			
Intragovernmental:			
Fund Balance with Treasury (Note 3)			
Entity	\$ 73,421,996	\$ 4,769,657	\$ 0
Non-Entity Seized Iraqi Cash	0	0	0
Non-Entity - Other	223,225	0	0
Investments (Note 4)	9,801	0	0
Accounts Receivable (Note 5)	449,402	162,287	(29,669)
Other Assets (Note 6)	0	10,514	177,351
Total Intragovernmental Assets	<u>\$ 74,104,424</u>	<u>\$ 4,942,458</u>	<u>\$ 147,682</u>
Cash and Other Monetary Assets (Note 7)	\$ 281,053	\$ 1,942	\$ 0
Accounts Receivable (Note 5)	3,326,236	55,897	0
Loans Receivable (Note 8)	0	0	0
Inventory and Related Property (Note 9)	53,097,159	514,475	0
General Property, Plant and Equipment (Note 10)	153,489,661	4,917,789	0
Investments (Note 4)	0	0	0
Other Assets (Note 6)	5,936,773	243,851	0
TOTAL ASSETS	<u><u>\$ 290,235,306</u></u>	<u><u>\$ 10,676,412</u></u>	<u><u>\$ 147,682</u></u>
LIABILITIES (Note 11)			
Intragovernmental:			
Accounts Payable (Note 12)	\$ (1,723,694)	\$ 88,156	\$ 2,755,728
Debt (Note 13)	0	0	0
Environmental Liabilities (Note 14)	0	0	0
Other Liabilities (Note 15 & Note 16)	3,780,090	79,823	0
Total Intragovernmental Liabilities	<u>\$ 2,056,396</u>	<u>\$ 167,979</u>	<u>\$ 2,755,728</u>
Accounts Payable (Note 12)	\$ 600,797	\$ 1,277,025	\$ (135,300)
Military Retirement Benefits and Other Employment-Related			
Actuarial Liabilities (Note 17)	1,362,866	227,105	0
Environmental Liabilities (Note 14)	15,614,424	0	0
Loan Guarantee Liability (Note 8)	0	0	0
Other Liabilities (Note 15 and Note 16)	3,417,897	368,065	0
Debt Held by Public (Note 13)	0	0	0
TOTAL LIABILITIES	<u><u>\$ 23,052,380</u></u>	<u><u>\$ 2,040,174</u></u>	<u><u>\$ 2,620,428</u></u>
NET POSITION			
Unexpended Appropriations (Note 18)	\$ 49,436,482	\$ 3,817,443	\$ (2,472,746)
Cumulative Results of Operations	217,746,444	4,818,795	0
TOTAL NET POSITION	<u><u>\$ 267,182,926</u></u>	<u><u>\$ 8,636,238</u></u>	<u><u>\$ (2,472,746)</u></u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 290,235,306</u></u>	<u><u>\$ 10,676,412</u></u>	<u><u>\$ 147,682</u></u>

Department of Defense
 Department of the Navy
CONSOLIDATING BALANCE SHEET
 As of September 30, 2003 and 2002
 (\$ in thousands)

	<u>Combined Total</u>	<u>Eliminations</u>	<u>2003 Consolidated</u>	<u>2002 Consolidated</u>
ASSETS (Note 2)				
Intragovernmental:				
Fund Balance with Treasury (Note 3)				
Entity	\$ 78,191,653	\$ 0	\$ 78,191,653	\$ 67,999,880
Non-Entity Seized Iraqi Cash	0	0	0	0
Non-Entity - Other	223,225	0	223,225	250,075
Investments (Note 4)	9,801	0	9,801	9,625
Accounts Receivable (Note 5)	582,020	85,157	496,863	742,467
Other Assets (Note 6)	187,865	0	187,865	67,081
Total Intragovernmental Assets	<u>\$ 79,194,564</u>	<u>\$ 85,157</u>	<u>\$ 79,109,407</u>	<u>\$ 69,069,128</u>
Cash and Other Monetary Assets (Note 7)	\$ 282,995	\$ 0	\$ 282,995	\$ 130,664
Accounts Receivable (Note 5)	3,382,133	0	3,382,133	2,799,887
Loans Receivable (Note 8)	0	0	0	0
Inventory and Related Property (Note 9)	53,611,634	0	53,611,634	33,003,595
General Property, Plant and Equipment (Note 10)	158,407,450	0	158,407,450	26,109,437
Investments (Note 4)	0	0	0	0
Other Assets (Note 6)	6,180,624	0	6,180,624	4,780,462
TOTAL ASSETS	<u><u>\$ 301,059,400</u></u>	<u><u>\$ 85,157</u></u>	<u><u>\$ 300,974,243</u></u>	<u><u>\$ 135,893,173</u></u>
LIABILITIES (Note 11)				
Intragovernmental:				
Accounts Payable (Note 12)	\$ 1,120,190	\$ 85,157	\$ 1,035,033	\$ 748,279
Debt (Note 13)	0	0	0	127
Environmental Liabilities (Note 14)	0	0	0	0
Other Liabilities (Note 15 & Note 16)	3,859,913	0	3,859,913	3,489,503
Total Intragovernmental Liabilities	<u>\$ 4,980,103</u>	<u>\$ 85,157</u>	<u>\$ 4,894,946</u>	<u>\$ 4,237,909</u>
Accounts Payable (Note 12)	\$ 1,742,522	\$ 0	\$ 1,742,522	\$ 1,510,329
Military Retirement Benefits and Other Employment-Related				
Actuarial Liabilities (Note 17)	1,589,971	0	1,589,971	1,546,375
Environmental Liabilities (Note 14)	15,614,424	0	15,614,424	15,469,073
Loan Guarantee Liability (Note 8)	0	0	0	0
Other Liabilities (Note 15 and Note 16)	3,785,962	0	3,785,962	4,185,487
Debt Held by Public (Note 13)	0	0	0	0
TOTAL LIABILITIES	<u><u>\$ 27,712,982</u></u>	<u><u>\$ 85,157</u></u>	<u><u>\$ 27,627,825</u></u>	<u><u>\$ 26,949,173</u></u>
NET POSITION				
Unexpended Appropriations (Note 18)	\$ 50,781,179	\$ 0	\$ 50,781,179	\$ 64,774,328
Cumulative Results of Operations	222,565,239	0	222,565,239	44,169,672
TOTAL NET POSITION	<u><u>\$ 273,346,418</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 273,346,418</u></u>	<u><u>\$ 108,944,000</u></u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 301,059,400</u></u>	<u><u>\$ 85,157</u></u>	<u><u>\$ 300,974,243</u></u>	<u><u>\$ 135,893,173</u></u>





Department of Defense
 Department of the Navy
CONSOLIDATING STATEMENT OF NET COST
 For the years ended September 30, 2003 and 2002
 (\$ in thousands)

	<u>Navy</u>	<u>Marine Corps</u>	<u>Marine Corps Component Level</u>	<u>DON Component Level</u>
Program Costs				
Military Personnel				
Intragovernmental Gross Costs	\$ 9,976,728	\$ 2,158,831	\$ 0	\$ 0
(Less Intragovernmental Earned Revenue)	(70,213)	1,064	0	0
Intragovernmental Net Costs	<u>\$ 9,906,515</u>	<u>\$ 2,159,895</u>	<u>\$ 0</u>	<u>\$ 0</u>
Gross Costs With the Public	\$ 15,841,374	\$ 8,668,473	\$ 0	\$ 0
(Less: Earned Revenue From the Public)	(281,482)	0	0	0
Net Costs With the Public	<u>\$ 15,559,892</u>	<u>\$ 8,668,473</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Program Cost	<u>\$ 25,466,407</u>	<u>\$ 10,828,368</u>	<u>\$ 0</u>	<u>\$ 0</u>
Operations and Maintenance				
Intragovernmental Gross Costs	\$ 16,589,828	\$ 194,073	\$ 0	\$ 0
(Less Intragovernmental Earned Revenue)	(2,227,758)	(377,261)	0	0
Intragovernmental Net Costs	<u>\$ 14,362,070</u>	<u>\$ (183,188)</u>	<u>\$ 0</u>	<u>\$ 0</u>
Gross Costs With the Public	\$ 23,897,853	\$ 4,792,689	\$ 0	\$ 0
(Less: Earned Revenue From the Public)	(1,036,745)	0	0	0
Net Costs With the Public	<u>\$ 22,861,108</u>	<u>\$ 4,792,689</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Program Cost	<u>\$ 37,223,178</u>	<u>\$ 4,609,501</u>	<u>\$ 0</u>	<u>\$ 0</u>
Procurement				
Intragovernmental Gross Costs	\$ 3,968,352	\$ (1,545)	\$ 0	\$ 0
(Less Intragovernmental Earned Revenue)	(886,743)	103	0	0
Intragovernmental Net Costs	<u>\$ 3,081,609</u>	<u>\$ (1,442)</u>	<u>\$ 0</u>	<u>\$ 0</u>
Gross Costs With the Public	\$ 13,395,399	\$ 1,111,662	\$ 0	\$ 0
(Less: Earned Revenue From the Public)	(310,683)	0	0	0
Net Costs With the Public	<u>\$ 13,084,716</u>	<u>\$ 1,111,662</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Program Cost	<u>\$ 16,166,325</u>	<u>\$ 1,110,220</u>	<u>\$ 0</u>	<u>\$ 0</u>
Research, Development, Test & Evaluation				
Intragovernmental Gross Costs	\$ 993,892	\$ 0	\$ 0	\$ 0
(Less Intragovernmental Earned Revenue)	(237,506)	0	0	0
Intragovernmental Net Costs	<u>\$ 756,386</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Gross Costs With the Public	\$ 11,418,578	\$ 0	\$ 0	\$ 0
(Less: Earned Revenue From the Public)	(4,122)	0	0	0
Net Costs With the Public	<u>\$ 11,414,456</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Program Cost	<u>\$ 12,170,842</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Department of Defense
 Department of the Navy
CONSOLIDATING STATEMENT OF NET COST
 For the years ended September 30, 2003 and 2002
 (\$ in thousands)

	<u>Combined Total</u>	<u>Eliminations</u>	<u>2003 Consolidated</u>	<u>2002 Consolidated</u>
Program Costs				
Military Personnel				
Intragovernmental Gross Costs	\$ 12,135,559	\$ 0	\$ 12,135,559	\$ 5,070,720
(Less Intragovernmental Earned Revenue)	(69,149)	0	(69,149)	(209,189)
Intragovernmental Net Costs	<u>\$ 12,066,410</u>	<u>\$ 0</u>	<u>\$ 12,066,410</u>	<u>\$ 4,861,531</u>
Gross Costs With the Public	\$ 24,509,847	\$ 0	\$ 24,509,847	\$ 25,061,634
(Less: Earned Revenue From the Public)	(281,482)	0	(281,482)	(68,080)
Net Costs With the Public	<u>\$ 24,228,365</u>	<u>\$ 0</u>	<u>\$ 24,228,365</u>	<u>\$ 24,993,554</u>
Net Program Cost	<u>\$ 36,294,775</u>	<u>\$ 0</u>	<u>\$ 36,294,775</u>	<u>\$ 29,855,085</u>
Operations and Maintenance				
Intragovernmental Gross Costs	\$ 16,783,901	\$ 0	\$ 16,783,901	\$ 20,573,858
(Less Intragovernmental Earned Revenue)	(2,605,019)	0	(2,605,019)	(824,786)
Intragovernmental Net Costs	<u>\$ 14,178,882</u>	<u>\$ 0</u>	<u>\$ 14,178,882</u>	<u>\$ 19,749,072</u>
Gross Costs With the Public	\$ 28,690,542	\$ 0	\$ 28,690,542	\$ 15,215,208
(Less: Earned Revenue From the Public)	(1,036,745)	0	(1,036,745)	(1,031,092)
Net Costs With the Public	<u>\$ 27,653,797</u>	<u>\$ 0</u>	<u>\$ 27,653,797</u>	<u>\$ 14,184,116</u>
Net Program Cost	<u>\$ 41,832,679</u>	<u>\$ 0</u>	<u>\$ 41,832,679</u>	<u>\$ 33,933,188</u>
Procurement				
Intragovernmental Gross Costs	\$ 3,966,807	\$ 0	\$ 3,966,807	\$ 4,107,978
(Less Intragovernmental Earned Revenue)	(886,640)	0	(886,640)	(100,053)
Intragovernmental Net Costs	<u>\$ 3,080,167</u>	<u>\$ 0</u>	<u>\$ 3,080,167</u>	<u>\$ 4,007,925</u>
Gross Costs With the Public	\$ 14,507,061	\$ 0	\$ 14,507,061	\$ 24,291,643
(Less: Earned Revenue From the Public)	(310,683)	0	(310,683)	(463,320)
Net Costs With the Public	<u>\$ 14,196,378</u>	<u>\$ 0</u>	<u>\$ 14,196,378</u>	<u>\$ 23,828,323</u>
Net Program Cost	<u>\$ 17,276,545</u>	<u>\$ 0</u>	<u>\$ 17,276,545</u>	<u>\$ 27,836,248</u>
Research, Development, Test & Evaluation				
Intragovernmental Gross Costs	\$ 993,892	\$ 0	\$ 993,892	\$ 26,807
(Less Intragovernmental Earned Revenue)	(237,506)	0	(237,506)	(1,734)
Intragovernmental Net Costs	<u>\$ 756,386</u>	<u>\$ 0</u>	<u>\$ 756,386</u>	<u>\$ 25,073</u>
Gross Costs With the Public	\$ 11,418,578	\$ 0	\$ 11,418,578	\$ 10,376,773
(Less: Earned Revenue From the Public)	(4,122)	0	(4,122)	(53,676)
Net Costs With the Public	<u>\$ 11,414,456</u>	<u>\$ 0</u>	<u>\$ 11,414,456</u>	<u>\$ 10,323,097</u>
Net Program Cost	<u>\$ 12,170,842</u>	<u>\$ 0</u>	<u>\$ 12,170,842</u>	<u>\$ 10,348,170</u>



Department of Defense
 Navy Working Capital Fund
CONSOLIDATING STATEMENT OF NET COST
 For the years ended September 30, 2003 and 2002
 (\$ in thousands)

	<u>Navy</u>	<u>Marine Corps</u>	<u>Marine Corps Component Level</u>	<u>DON Component Level</u>
Program Costs				
Military Construction/Family Housing				
Intragovernmental Gross Costs	\$ 204,387	\$ 0	\$ 0	\$ 0
(Less: Intragovernmental Earned Revenue)	(124,381)	0	0	0
Intragovernmental Net Costs	<u>\$ 80,006</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Gross Costs With the Public	\$ 1,370,505	\$ 0	\$ 0	\$ 0
(Less: Earned Revenue From the Public)	(369,889)	0	0	0
Net Costs With the Public	<u>\$ 1,000,616</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Program Cost	<u>\$ 1,080,622</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Other				
Intragovernmental Gross Costs	\$ (2,083)	\$ 0	\$ 0	\$ 0
(Less: Intragovernmental Earned Revenue)	(26,447)	0	0	0
Intragovernmental Net Costs	<u>\$ (28,530)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Gross Costs With the Public	\$ 112,352	\$ 0	\$ 0	\$ 0
(Less: Earned Revenue From the Public)	(10,133)	0	0	0
Net Costs With the Public	<u>\$ 102,219</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Net Program Cost	<u>\$ 73,689</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Program Costs				
Intragovernmental Gross Costs	\$ 31,731,104	\$ 2,351,359	\$ 1,672,422	\$ (398,483)
(Less: Intragovernmental Earned Revenue)	(3,573,048)	(376,094)	14,563	533,783
Intragovernmental Net Costs	<u>\$ 28,158,056</u>	<u>\$ 1,975,265</u>	<u>\$ 1,686,985</u>	<u>\$ 135,300</u>
Gross Costs With the Public	\$ 66,036,061	\$ 14,572,824	\$ (1,777,548)	\$ 2,337,446
(Less: Earned Revenue From the Public)	(2,013,054)	0	93,358	0
Net Costs With the Public	<u>\$ 64,023,007</u>	<u>\$ 14,572,824</u>	<u>\$ (1,684,190)</u>	<u>\$ 2,337,446</u>
Net Program Cost	<u>\$ 92,181,063</u>	<u>\$ 16,548,089</u>	<u>\$ 2,795</u>	<u>\$ 2,472,746</u>
Costs Not Assigned to Programs	0	0	0	0
(Less: Earned Revenue Not Attributable to Programs)	0	0	0	0
Net Cost of Operations	<u><u>\$ 92,181,063</u></u>	<u><u>\$ 16,548,089</u></u>	<u><u>\$ 2,795</u></u>	<u><u>\$ 2,472,746</u></u>

Department of Defense
 Department of the Navy
CONSOLIDATING STATEMENT OF NET COST
 For the years ended September 30, 2003 and 2002
 (\$ in thousands)

	<u>Combined Total</u>	<u>Eliminations</u>	<u>2003 Consolidated</u>	<u>2002 Consolidated</u>
Program Costs				
Military Construction/Family Housing				
Intragovernmental Gross Costs	\$ 204,387	\$ 0	\$ 204,387	\$ 62,054
(Less Intragovernmental Earned Revenue)	(124,381)	0	(124,381)	(73,804)
Intragovernmental Net Costs	<u>\$ 80,006</u>	<u>\$ 0</u>	<u>\$ 80,006</u>	<u>\$ (11,750)</u>
Gross Costs With the Public	\$ 1,370,505	\$ 0	\$ 1,370,505	\$ 647,686
(Less: Earned Revenue From the Public)	(369,889)	0	(369,889)	(69,133)
Net Costs With the Public	<u>\$ 1,000,616</u>	<u>\$ 0</u>	<u>\$ 1,000,616</u>	<u>\$ 578,553</u>
Net Program Cost	<u>\$ 1,080,622</u>	<u>\$ 0</u>	<u>\$ 1,080,622</u>	<u>\$ 566,803</u>
Other				
Intragovernmental Gross Costs	\$ (2,083)	\$ 0	\$ (2,083)	\$ 69,673
(Less Intragovernmental Earned Revenue)	(26,447)	0	(26,447)	(367)
Intragovernmental Net Costs	<u>\$ (28,530)</u>	<u>\$ 0</u>	<u>\$ (28,530)</u>	<u>\$ 69,306</u>
Gross Costs With the Public	\$ 112,352	\$ 0	\$ 112,352	\$ 43,076
(Less: Earned Revenue From the Public)	(10,133)	0	(10,133)	(36,348)
Net Costs With the Public	<u>\$ 102,219</u>	<u>\$ 0</u>	<u>\$ 102,219</u>	<u>\$ 6,728</u>
Net Program Cost	<u>\$ 73,689</u>	<u>\$ 0</u>	<u>\$ 73,689</u>	<u>\$ 76,034</u>
Total Program Costs				
Intragovernmental Gross Costs	\$ 35,356,402	\$ 213,828	\$ 35,142,574	\$ 29,911,090
(Less Intragovernmental Earned Revenue)	(3,400,796)	(213,828)	(3,186,968)	(1,209,933)
Intragovernmental Net Costs	<u>\$ 31,955,606</u>	<u>\$ 0</u>	<u>\$ 31,955,606</u>	<u>\$ 28,701,157</u>
Gross Costs With the Public	\$ 81,168,783	\$ 0	\$ 81,168,783	\$ 75,636,020
(Less: Earned Revenue From the Public)	(1,919,696)	0	(1,919,696)	(1,721,649)
Net Costs With the Public	<u>\$ 79,249,087</u>	<u>\$ 0</u>	<u>\$ 79,249,087</u>	<u>\$ 73,914,371</u>
Net Program Cost	<u>\$ 111,204,693</u>	<u>\$ 0</u>	<u>\$ 111,204,693</u>	<u>\$ 102,615,528</u>
Costs Not Assigned to Programs	0	0	0	0
(Less: Earned Revenue Not Attributable to Programs)	0	0	0	0
Net Cost of Operations	<u><u>\$ 111,204,693</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 111,204,693</u></u>	<u><u>\$ 102,615,528</u></u>



Department of Defense
 Department of the Navy
CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION
 For the years ended September 30, 2003 and 2002
 (\$ in thousands)

	<u>Navy</u>	<u>Marine Corps</u>	<u>Component Level</u>
Cumulative Results of Operations			
Beginning Balances	\$ 39,580,404	\$ 4,589,268	\$ 0
Prior period adjustments (+/-)	152,557,286	0	0
Beginning Balances, as adjusted	<u>\$ 192,137,690</u>	<u>\$ 4,589,268</u>	<u>\$ 0</u>
Budgetary Financing Sources:			
Appropriations Received	\$ 0	\$ 0	\$ 0
Appropriations transferred in/out (+/-)	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0
Appropriations used	117,288,658	16,720,086	2,472,746
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	0	0
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	48,973	2,794	(2)
Imputed financing from costs absorbed by others	452,189	57,530	0
Other (+/-)	0	0	0
Total Financing Sources	<u>\$ 117,789,820</u>	<u>\$ 16,780,410</u>	<u>\$ 2,472,744</u>
Net Cost of Operations (+/-)	<u>\$ 92,181,063</u>	<u>\$ 16,550,884</u>	<u>\$ 2,472,746</u>
Ending Balances	<u><u>\$ 217,746,447</u></u>	<u><u>\$ 4,818,794</u></u>	<u><u>\$ (2)</u></u>
Unexpended Appropriations			
Beginning Balances	\$ 61,818,979	\$ 2,955,349	\$ 0
Prior period adjustments (+/-)	0	0	0
Beginning Balances, as adjusted	<u>\$ 61,818,979</u>	<u>\$ 2,955,349</u>	<u>\$ 0</u>
Budgetary Financing Sources:			
Appropriations Received	\$ 104,816,344	\$ 17,316,344	\$ 0
Appropriations transferred in/out (+/-)	1,367,327	442,961	0
Other adjustments (rescissions, etc) (+/-)	(1,277,509)	(177,125)	(1)
Appropriations used	(117,288,658)	(16,720,086)	(2,472,746)
Nonexchange revenue	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0
Other budgetary financing sources (+/-)	0	0	0
Other Financing Sources:			
Donations and forfeitures of property	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0
Imputed financing from costs absorbed by others	0	0	0
Other (+/-)	0	0	0
Total Financing Sources	<u>\$ (12,382,496)</u>	<u>\$ 862,094</u>	<u>\$ (2,472,747)</u>
Net Cost of Operations (+/-)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Ending Balances	<u><u>\$ 49,436,483</u></u>	<u><u>\$ 3,817,443</u></u>	<u><u>\$ (2,472,747)</u></u>

Department of Defense
Department of the Navy

CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

For the years ended September 30, 2003 and 2002

(\$ in thousands)

	<u>Combined Total</u>	<u>Eliminations</u>	<u>2003 Consolidated</u>	<u>2002 Consolidated</u>
Cumulative Results of Operations				
Beginning Balances	\$ 44,169,672	\$ 0	\$ 44,169,672	\$ 74,443,852
Prior period adjustments (+/-)	152,557,286	0	152,557,286	(27,802,492)
Beginning Balances, as adjusted	<u>\$ 196,726,958</u>	<u>\$ 0</u>	<u>\$ 196,726,958</u>	<u>\$ 46,641,360</u>
Budgetary Financing Sources:				
Appropriations Received	\$ 0	\$ 0	\$ 0	0
Appropriations transferred in/out (+/-)	0	0	0	0
Other adjustments (rescissions, etc) (+/-)	0	0	0	0
Appropriations used	136,481,490	0	136,481,490	99,612,676
Nonexchange revenue	0	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0	0
Other budgetary financing sources (+/-)	0	0	0	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers in/out without reimbursement (+/-)	51,765	0	51,765	5,871
Imputed financing from costs absorbed by others	509,719	0	509,719	525,294
Other (+/-)	0	0	0	0
Total Financing Sources	<u>\$ 137,042,974</u>	<u>\$ 0</u>	<u>\$ 137,042,974</u>	<u>\$ 100,143,841</u>
Net Cost of Operations (+/-)	<u>\$ 111,204,693</u>	<u>\$ 0</u>	<u>\$ 111,204,693</u>	<u>\$ 102,615,528</u>
Ending Balances	<u>\$ 222,565,239</u>	<u>\$ 0</u>	<u>\$ 222,565,239</u>	<u>\$ 44,169,673</u>
Unexpended Appropriations				
Beginning Balances	\$ 64,774,328	\$ 0	\$ 64,774,328	\$ 61,982,518
Prior period adjustments (+/-)	0	0	0	1,553,324
Beginning Balances, as adjusted	<u>\$ 64,774,328</u>	<u>\$ 0</u>	<u>\$ 64,774,328</u>	<u>\$ 63,535,842</u>
Budgetary Financing Sources:				
Appropriations Received	\$ 122,132,688	\$ 0	\$ 122,132,688	\$ 99,524,458
Appropriations transferred in/out (+/-)	1,810,288	0	1,810,288	2,727,308
Other adjustments (rescissions, etc) (+/-)	(1,454,635)	0	(1,454,635)	(1,363,575)
Appropriations used	(136,481,490)	0	(136,481,490)	(99,649,705)
Nonexchange revenue	0	0	0	0
Donations and forfeitures of cash and cash equivalents	0	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0	0
Other budgetary financing sources (+/-)	0	0	0	0
Other Financing Sources:				
Donations and forfeitures of property	0	0	0	0
Transfers in/out without reimbursement (+/-)	0	0	0	0
Imputed financing from costs absorbed by others	0	0	0	0
Other (+/-)	0	0	0	0
Total Financing Sources	<u>\$ (13,993,149)</u>	<u>\$ 0</u>	<u>\$ (13,993,149)</u>	<u>\$ 1,238,486</u>
Net Cost of Operations (+/-)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Ending Balances	<u>\$ 50,781,179</u>	<u>\$ 0</u>	<u>\$ 50,781,179</u>	<u>\$ 64,774,328</u>





Department of Defense
 Department of the Navy
COMBINING STATEMENT OF BUDGETARY RESOURCES
 For the years ended September 30, 2003 and 2002
 (\$ in thousands)

BUDGETARY FINANCING ACCOUNTS

	Navy	Marine Corps	Component Level	2003 Combined	2002 Combined
BUDGETARY RESOURCES					
Budget Authority:					
Appropriations Received	\$ 104,853,084	\$ 17,316,344	\$ 0	\$ 122,169,428	\$ 99,561,202
Borrowing Authority	0	0	0	0	0
Contract Authority	739	0	0	739	0
Net transfers (+/-)	1,254,747	407,395	0	1,662,142	2,676,247
Other	0	0	0	0	0
Unobligated Balance:					
Beginning of period	11,642,091	266,892	0	11,908,983	13,835,828
Net transfers, actual (+/-)	109,980	35,566	0	145,546	51,061
Anticipated Transfers Balances	0	0	0	0	0
Spending Authority from Offsetting Collections:					
Earned					
Collected	6,244,971	547,585	0	6,792,556	6,489,962
Receivable from Federal sources	(1,040,041)	(171,491)	0	(1,211,532)	(263,453)
Change in unfilled customer orders					
Advances received	(59,842)	0	0	(59,842)	1,286
Without advance from Federal sources	154,071	154,211	0	308,282	186,518
Anticipated for the rest of year, without advances	0	0	0	0	0
Transfers from trust funds	0	0	0	0	0
Subtotal	<u>\$ 5,299,159</u>	<u>\$ 530,305</u>	<u>\$ 0</u>	<u>\$ 5,829,464</u>	<u>\$ 6,414,313</u>
Recoveries of prior year obligations	\$ 5,011,529	\$ 1,997,810	\$ 0	\$ 7,009,339	\$ 2,286,834
Temporarily not available pursuant to Public Law	0	0	0	0	0
Permanently not available	(1,275,449)	(177,125)	0	(1,452,574)	(1,399,956)
Total Budgetary Resources	<u><u>\$ 126,895,880</u></u>	<u><u>\$ 20,377,187</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 147,273,067</u></u>	<u><u>\$ 123,425,529</u></u>

Department of Defense
 Department of the Navy
COMBINING STATEMENT OF BUDGETARY RESOURCES
 For the years ended September 30, 2003 and 2002
 (\$ in thousands)

BUDGETARY FINANCING ACCOUNTS

	<u>Navy</u>	<u>Marine Corps</u>	<u>Component Level</u>	<u>2003 Combined</u>	<u>2002 Combined</u>
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred:					
Direct	\$ 105,844,310	\$ 18,653,640	\$ 0	\$ 124,497,950	\$ 99,307,751
Reimbursable	6,943,352	1,136,529	0	8,079,881	12,208,795
Subtotal	<u>\$ 112,787,662</u>	<u>\$ 19,790,169</u>	<u>\$ 0</u>	<u>\$ 132,577,831</u>	<u>\$ 111,516,546</u>
Unobligated balance:					
Apportioned	\$ 13,240,876	456,125	\$ 0	\$ 13,697,001	10,590,567
Exempt from apportionment	0	0	0	0	0
Other available	0	0	0	0	0
Unobligated Balances Not Available	867,342	130,893	0	998,235	1,318,416
Total, Status of Budgetary Resources	<u>\$ 126,895,880</u>	<u>\$ 20,377,187</u>	<u>\$ 0</u>	<u>\$ 147,273,067</u>	<u>\$ 123,425,529</u>
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:					
Obligated Balance, Net-beginning of period	\$ 53,464,877	\$ 2,635,309	\$ 0	\$ 56,100,186	\$ 52,333,850
Obligated Balance transferred, net (+/-)	0	0	0	0	0
Obligated Balance, net-end of period:					
Accounts Receivable	(835,725)	(62,117)	0	(897,842)	(2,109,374)
Unfilled customer order from Federal sources	(2,215,181)	(120,295)	0	(2,335,476)	(2,027,193)
Undelivered Orders	62,972,743	3,096,354	(2,650,097)	63,419,000	55,633,755
Accounts Payable	(583,582)	1,268,697	2,650,097	3,335,212	4,603,000
Outlays:					
Disbursements	102,788,724	16,262,309	0	119,051,033	105,540,310
Collections	(6,185,129)	(547,585)	0	(6,732,714)	(6,491,249)
Subtotal	<u>\$ 96,603,595</u>	<u>\$ 15,714,724</u>	<u>\$ 0</u>	<u>\$ 112,318,319</u>	<u>\$ 99,049,061</u>
Less: Offsetting receipts	(246,802)	0	0	(246,802)	(213,345)
Net Outlays	<u>\$ 96,356,793</u>	<u>\$ 15,714,724</u>	<u>\$ 0</u>	<u>\$ 112,071,517</u>	<u>\$ 98,835,716</u>



Department of Defense
 Department of the Navy
COMBINING STATEMENT OF FINANCING
 For the years ended September 30, 2003 and 2002
 (\$ in thousands)

	<u>Navy</u>	<u>Marine Corps</u>	<u>Component Level</u>	<u>2003 Combined</u>	<u>2002 Combined</u>
Resources Used to Finance Activities:					
Budgetary Resources Obligated					
Obligations Incurred	\$ 112,787,662	\$ 19,790,169	\$ 0	\$ 132,577,831	\$ 111,516,546
Less: Spending Authority from offsetting collections and recoveries (-)	(10,310,688)	(2,528,115)	0	(12,838,803)	(8,701,148)
Obligations net of offsetting collections and recoveries	\$ 102,476,974	\$ 17,262,054	\$ 0	\$ 119,739,028	\$ 102,815,398
Less: Offsetting receipts (-)	(246,802)	0	0	(246,802)	(213,345)
Net obligations	\$ 102,230,172	\$ 17,262,054	\$ 0	\$ 119,492,226	\$ 102,602,053
Other Resources					
Donations and forfeitures of property	0	0	0	0	0
Transfers in/out without reimbursement (+/-)	48,973	2,794	(2)	51,765	0
Imputed financing from costs absorbed by others	452,189	57,530	0	509,719	525,294
Other (+/-)	0	0	0	0	0
Net other resources used to finance activities	\$ 501,162	\$ 60,324	\$ (2)	\$ 561,484	\$ 525,294
Total resources used to finance activities	\$ 102,731,334	\$ 17,322,378	\$ (2)	\$ 120,053,710	\$ 103,127,347
Resources Used to Finance Items not Part of the Net Cost of Operations:					
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided					
Undelivered orders (-)	\$ (4,989,987)	\$ (696,179)	\$ 2,472,746	\$ (3,213,420)	\$ (10,676,267)
Unfilled Customer Orders	94,229	154,211	0	248,440	187,805
Resources that fund expenses recognized in prior periods	(28,643)	(2,641)	0	(31,284)	(620,162)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations					
Operations	0	0	0	0	0
Resources that finance the acquisition of assets	(26,444,222)	0	0	(26,444,222)	7,487,846
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations					
Less: Trust or Special Fund receipts related to exchange in the entity's budget (-)	0	0	0	0	0
Other (+/-)	0	0	0	0	0
Total resources used to finance items not part of the Net Cost of Operations	\$ (31,368,623)	\$ (544,609)	\$ 2,472,746	\$ (29,440,486)	\$ (3,620,778)
Total resources used to finance the Net Cost of Operations	\$ 71,362,711	\$ 16,777,769	\$ 2,472,744	\$ 90,613,224	\$ 99,506,569

Department of Defense
 Department of the Navy
COMBINING STATEMENT OF FINANCING
 For the years ended September 30, 2003 and 2002
 (\$ in thousands)

	<u>Navy</u>	<u>Marine Corps</u>	<u>Component Level</u>	<u>2003 Combined</u>	<u>2002 Combined</u>
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:					
Components Requiring or Generating Resources in Future Periods:					
Increase in annual leave liability	\$ 0	\$ 0	\$ 0	\$ 0	\$ 263,070
Increase in environmental and disposal liability	0	0	0	0	595,543
Upward/Downward reestimates of credit subsidy expense	0	0	0	0	0
Increase in exchange revenue receivable from the public (-)	0	0	0	0	0
Other (+/-)	<u>392,738</u>	<u>35,606</u>	<u>0</u>	<u>428,344</u>	<u>117,595</u>
Total components of Net Cost of Operations that will require or generate resources in future periods	\$ 392,738	\$ 35,606	\$ 0	\$ 428,344	\$ 976,208
Components not Requiring or Generating Resources:					
Depreciation and amortization	\$ 16,832,811	\$ 103,665	\$ 0	\$ 16,936,476	\$ 916,360
Revaluation of assets and liabilities (+/-)	3,578,020	(374,291)	0	3,203,729	(1,684,365)
Other (+/-)	<u>14,786</u>	<u>8,134</u>	<u>0</u>	<u>22,920</u>	<u>2,900,757</u>
Total components of Net Cost of Operations that will not require or generate resources	<u>\$ 20,425,617</u>	<u>\$ (262,492)</u>	<u>\$ 0</u>	<u>\$ 20,163,125</u>	<u>\$ 2,132,752</u>
Total components of Net Cost of Operations that will not require generate resources in the current period	<u>\$ 20,818,355</u>	<u>\$ (226,886)</u>	<u>\$ 0</u>	<u>\$ 20,591,469</u>	<u>\$ 3,108,960</u>
Net Cost of Operations	<u>\$ 92,181,066</u>	<u>\$ 16,550,883</u>	<u>\$ 2,472,744</u>	<u>\$ 111,204,693</u>	<u>\$ 102,615,529</u>







DEPARTMENT OF THE NAVY

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION



MILITARY EQUIPMENT

Narrative Statement

The Federal Accounting Standards Advisory Board (FASAB) revised the Statement of Federal Financial Accounting Standards No. 6 to require the capitalization and depreciation of military equipment (formerly National Defense Property, Plant and Equipment/ND PP&E) for fiscal years (FY) 2003 and beyond, and encouraged early implementation. Therefore, RSSI reporting of military equipment has been terminated.

HERITAGE ASSETS

For Fiscal Year Ended September 2003

(a)	(b) Measurement Quantity	(c) As of 10/30/02	(d) Additions	(e) Deletions	(f) As of 9/30/03
Museums	Each	21	0	0	21
Monuments & Memorials	Each	507	5	10	502
Cemeteries	Sites	57	0	0	57
Archeological Sites	Sites	23,283	2	23	23,262
Buildings and Structures	Each	9,099	9	16	9,092
Major Collections (See Supplemental Reporting)	Each				

Narrative Statement:

The Department of the Navy (DON) is required to report Heritage Assets in accordance with the following public laws:

- 10 USC 2721
- USC 483(b)
- Antiquities Act of 1906
- Historic Sites Act of 1935
- USC 470 National Historic Preservation Act of 1966
- National Environmental Policy Act of 1969
- American Indian Religious Freedom Act of 1978
- Archeological Resources Protection Act of 1979
- Native American Graves Protection & Repatriation Act of 1990
- Presidential Memorandum for Heads of Executive Departments and Agencies:
Government to Government Relations with Native American Tribal Governments Act of 1994
- 36 CFR 79 – Curation of Federally Owned and Administered Archeological Collections

In general, the DON defines Heritage Assets as items that are unique for one or more of the following reasons: historical or natural significance; cultural, educational or artistic importance; or significant architectural characteristics.

Explanation for adjustments, additions, and deletions. For the DON historic buildings and structures, cemeteries, monuments, and memorials a new Heritage Assets data element series (DE 410) has been added to the internet Naval Facilities Asset Data Store (iNFADS). The DON staff is working to assess the availability of installation inventory and the technical ease of verifying and when necessary recording items in iNFADS that are not already recorded. Therefore, balances will change as the DON staff works to reconcile installation records for historic buildings, structures, cemeteries, monuments and memorials with those in iNFADS.

For Archaeological sites and artifacts, the DON has established a web-based data repository to collect archaeological site and artifact information by installation, and will coordinate database population efforts in FY 2004. Archaeological site data provided for FY 2003 was derived through data collection effort within the heritage asset community.

The Department of the Navy Heritage Assets Management System (DONHAMS) has been implemented across the DON to improve and unify the collections management process that includes archival items, artwork, and historical artifacts are derived from DONHAMS. When implementing DONHAMS, data that was captured electronically was converted and placed into DONHAMS. The balances for the aforementioned items will change as DON museum and archive staffs continue to evaluate, accession and catalogue items for inclusion into DONHAMS.

The DON recognizes that there are items that it owns that may be classified as Heritage Assets as the items are evaluated, accessioned and catalogued.

Process used to establish assets as Heritage Assets. The processes used to establish items as having heritage significance varies between categories and type of assets being evaluated. Subject matter experts play a significant role in addition to other criteria such as listing on the National Register of Historic Places. In all cases, a myriad of federal statutes, service regulations, and other guidelines mandate heritage significance or provide guidance in its determination.

Multi-Use Heritage Assets. Per DoD FMR Volume 6B, Multi-Use Heritage Assets are reported both as Heritage Assets and on the Balance Sheet.

Information Pertaining to the Condition of DON Heritage Assets. The methodology used to report the condition of the heritage assets was a combination of visual assessment of the objects, historic value to the DON collection, and general display and storage standards for historic collections. The overall condition of the collection objects is good.

Museums

Museums are buildings, places, or institutions devoted to the acquisition, conservation, study, exhibition, and educational interpretation of objects having scientific, historical, or artistic value.

Monuments and Memorials

Monuments and Memorials have significant monetary and/or historical value to the DON.

The FY 2002 ending balance of 483 was adjusted upward by 24 resulting in an FY 2003 beginning balance of 507. This adjustment was the result of the DON beginning to utilize the iNFADS to collect heritage asset information by installation.

Cemeteries

Cemeteries are government owned burial grounds located on the DON Installations. The FY 2002 ending balance of 55 was adjusted upward by 2 resulting in an FY 2003 beginning balance of 57. This adjustment was a result of adding two existing cemeteries to iNFADS.

Archeological Sites

Archeological Sites are lands on which items of significance are located.

Buildings and Structures

Buildings and Structures are listed on or determined eligible for listing on the National Register of Historic Places, including Multi-use Heritage Assets. Criteria for evaluating National Register eligibility of these sites may be referenced at 36 CFR 60.4.





Supplemental Reporting. In addition to the data presented in the table above, the following supplemental information was reported as of 9/30/03:

Category	Measurement Quantity	As of 10/1/02	Additions	Deletions	As of 9/30/03
Archeological Artifacts	Cubic Feet	13,711	39	0	13,749
Archival	Linear Feet	122,575	4,054	3	126,626
Artwork	Item	37,556	335	511	37,380
Historical Artifacts	Item	1,115,628	7,344	8,565	1,114,407

Archeological Artifacts

The FY 2002 ending balance of 13,700 was adjusted upward by 11 resulting in an FY 2003 beginning balance of 13,711. This adjustment was the result of a reclassification of some items from artifacts to archival records.

Archival

The FY 2002 ending balance of 61,957 was adjusted upward by 60,618 resulting in an FY 2003 beginning balance of 122,575. This adjustment was the result of a reclassification of some items from artifacts to archival records.

Artwork

The FY 2002 ending balance of 30,620 was adjusted upward by 6,936 resulting in an FY 2003 beginning balance of 37,556.

Historical Artifacts

The FY 2002 ending balance of 1,058,255 was adjusted upward by 57,373 resulting in an FY 2003 beginning balance of 1,115,628. This adjustment was the result of a reclassification of some items from artifacts to archival records.

STEWARDSHIP LAND

For Fiscal Year Ended September 30, 2003
(Acres in Thousands)

(a) Land Use	(b) As of 10/1/02	(c) Additions	(d) Deletions	(e) As of 9/30/03
1. Mission	2,021	0	0	2,021
2. Parks & Historic Sites	0	0	0	0
Totals	2,021	0	0	2,021

Narrative Statement:

The DON followed the definition of Stewardship Land per DoD Guidance to include Public Domain, Land Set Aside, and Donated Land. The iNFADS was used to derive acres for Stewardship Land. Within the definition of Stewardship Land, land can be further defined as improved, semi-improved and other categories of land.

NON-FEDERAL PHYSICAL PROPERTY

The Department of the Navy does not fund this type of Activity.

INVESTMENTS IN RESEARCH AND DEVELOPMENT

Yearly Investment in Research and Development
For Fiscal Years 1999 through 2003
(In Millions of Dollars)

(a) Categories	(b) FY99	(c) FY00	(d) FY01	(e) FY02	(f) FY03
1. Basic Research	\$344	\$345	\$383	\$378	\$399
2. Applied Research	510	538	597	647	743
3. Development					
Advanced Technology Development	532	607	738	779	836
Advanced Component Development And Prototypes	2,234	2,216	2,418	2,415	2,536
System Development and Demonstration	2,019	2,225	2,086	2,836	4,200
Research, Development, Test, and Evaluation Management Support	709	750	782	838	797
Operational Systems Development	1,696	2,047	2,266	2,417	2,385
Total	\$8,044	\$8,728	\$9,270	\$10,310	\$11,896

Narrative Statement

Investments in Research and Development

Investment values included in this Report are based on Research and Development (R&D) outlays (expenditures). Outlays are used because current DoD systems are unable to capture and summarize costs in accordance with FASAB standards.

A. Basic Research

Basic Research is the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications, processes, or products in mind. Basic Research involves the gathering of fuller knowledge or understanding of the subject under study. Major outputs are scientific studies and research papers.

The following are two representative program examples for the above major category.

Light Emitting Devices

The first-generation display based on polymers that conduct electric current and emit light is being produced and distributed for evaluation. These polymers called "organic light-emitting diodes" or OLEDs are self-emissive, by eliminating the need for background lighting that is used in conventional liquid-crystal displays, yet producing a crisp, sharp image. The OLEDs also support moving images and offer wider viewing angles without image inversion or loss of contrast ratio. Products using this type of technology has the potential of producing such items as computer displays, lighted faces of cell phones, and personal digital assistants (PDAs).





Designer Proteins

Proteins designed to follow marching orders are the latest in the new field of “synthetic biology,” where scientists can create certain organisms to perform specific tasks. A new technology that is being developed would enable plants to change color in the presence of chemical and biological agents. A new computational method for designing sensor proteins is the key. Plants that detect groundwater pollution around chemical facilities, for example, and react by changing color, could be feasible in the near future. A variety of uses are possible from this research such as a TNT-sensing protein to assist the U.S. Navy’s underwater robots with locating and disarming explosion devices.

B. Applied Research

Applied Research is the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met. It is the practical application of such knowledge or understanding for the purpose of meeting a recognized need. This research points toward specific military needs with a view toward developing and evaluating the feasibility and practicability of proposed solutions and determining their parameters. Major outputs are scientific studies, investigations, and research papers, hardware components, software codes, and limited construction of, or part of, a weapon system to include nonsystem specific development efforts.

The following are two representative program examples for the above major category.

Abrupt Wing Stall

For the past 50 years, all aircraft that can operate at velocities near the speed of sound, and angles of attack near maximum lift, have experienced some form of uncommanded lateral motion or abrupt wing stall. The aircraft undergoes a one-sided or side-to-side upset from the intended direction of flight. At the very least, it causes loss of advantage. At its worst, it could result in a loss of the aircraft. The question that this project researched was the following: why did the F/A-018E/F jet fighters experience abrupt wing stall (AWS) when the F/A-18C/D jet fighters did not? A team of scientists and engineers conducted high-speed wind tunnel tests, performed hundreds of computational fluid dynamics calculations, and conducted both piloted and un-piloted simulations of AWS models. An AWS simulation model was developed and flown on a flight simulator. Both qualitative and quantitative simulation data were compared with actual flight test results. The team successfully developed new tools and procedures for an early assessment of an aircraft’s susceptibility to AWS. These tools and procedures include experimental, computational, simulation, and flight test figures of merit that can indicate if a new aircraft design will be vulnerable to AWS anywhere in its flight envelope.

Naval-Commercial Test Kit (NACTEK) Water Test Kits

The NACTEK water test kits to improve the Department of the Navy’s water-quality program. This effort sets an example of how the Operational Forces, Naval Research Science and Technology Action Team, Office of Naval Research program staff, and research scientists can work together as a team to develop a process that made use of commercial-off-the-shelf products rather than a Navy-developed system that would require extended development.

C. Development

Development takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability, and production capability. Development is comprised of five stages defined below:

1. Advance Technology Development is the systematic use of the knowledge or understanding gained from research directed toward proof of technological feasibility and assessment of operational and producibility rather than the development of hardware for service use. Employs demonstration activities intended to prove or test a technology or method.

2. Advanced Component Development and Prototypes evaluates integrated technologies in as realistic an operating environment as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system specific. Major outputs of Advanced Component Development and Prototype are hardware and software components, or complete weapon systems, ready for operational and developmental testing and field use.
3. System Development and Demonstration concludes the program or project and prepares it for production. It consists primarily of preproduction efforts, such as logistics and repair studies. Major outputs are weapons systems finalized for complete operational and development testing.
4. RDT&E Management Support is support for installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operation and maintenance of test aircraft and ships, and studies and analyses in support of the R&D program.
5. Operational Systems Development is concerned with development projects in support of programs or upgrades still in engineering and manufacturing development, which have received approval for production, for which production funds have been budgeted in subsequent fiscal years.

The following are two representative program examples for the above major category.

Submarine Acoustic Warfare Development

A submarine Defensive Warfare System (SDWS) is being developed to improve the effectiveness and survivability of all classes of naval submarines. Acoustic Interception consist of developing a new acoustic sensor, the Sparsely Populated Volumetric Array (SPVA), that will improve the performance of acoustic intercept systems. It will also provide a ranging capability for submarines through Acoustic Rapid commercial-off-the-shelf Insertion and Advanced Process build software improvements. Next Generation Countermeasures are also part of this effort.

SSN-688 and Trident Modernization

Under this program the Department of the Navy scientists continued the design and integration efforts of the Common Submarine Radio Room (CSRR) in support of the OHIO class submarines. In addition, they began the CSRR conversion of the TRIDENT Land-Based Evaluation Facility into a CSRR configuration, which will support all classes of submarines. The scientists also completed environmental and qualification testing consisting of airborne/structure borne noise, TEMPEST, humidity, overpressure, temperature, shock, inclination, and drip in support of Multifunctional Crypto System (MCS).







DEPARTMENT OF THE NAVY

**GENERAL FUND
REQUIRED SUPPLEMENTARY INFORMATION**



Department of Defense
 Department of the Navy
DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES
 For the years ended September 30, 2003 and 2002
 (\$ in thousands)

	<u>Other</u>	<u>Research, Development, Test & Evaluation</u>	<u>Operation and Maintenance</u>	<u>Procurement</u>
BUDGETARY FINANCING ACCOUNTS				
BUDGETARY RESOURCES				
Budget Authority				
Appropriations Received	\$ 443,688	\$ 13,866,785	\$ 42,354,227	\$ 27,744,961
Contract Authority	739	0	0	0
Net transfers (+/-)	(255,507)	(77,869)	1,209,710	594,260
Other	0	0	0	0
Unobligated Balance:				
Beginning of period	37,538	1,116,137	942,066	9,053,880
Net transfers, actual (+/-)	0	(44,039)	94,010	54,139
Anticipated Transfers Balances	0	0	0	0
Spending Authority from Offsetting Collections:				
Earned	0	0	0	0
Collected	0	269,635	4,459,542	1,027,974
Receivable from Federal sources	0	(28,007)	(1,163,010)	169,349
Change in unfilled customer orders	0	0	0	0
Advances received	0	0	(59,948)	0
Without advance from Federal sources	0	(157,683)	555,920	(161,081)
Anticipated for the rest of year, without advances	0	0	0	0
Transfers from trust funds	0	0	0	0
Subtotal	<u>\$ 0</u>	<u>\$ 83,945</u>	<u>\$ 3,792,504</u>	<u>\$ 1,036,242</u>
Recoveries of prior year obligations	<u>\$ 1,246</u>	<u>\$ 562,512</u>	<u>\$ 4,183,221</u>	<u>\$ 1,267,960</u>
Temporarily not available pursuant to Public Law	0	0	0	0
Permanently not available	(1,441)	(167,654)	(709,857)	(326,598)
Total Budgetary Resources	<u><u>\$ 226,263</u></u>	<u><u>\$ 15,339,817</u></u>	<u><u>\$ 51,865,881</u></u>	<u><u>\$ 39,424,844</u></u>
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred				
Direct	\$ 125,130	\$ 13,574,331	\$ 45,257,714	\$ 27,185,912
Reimbursable	598	342,630	5,749,577	1,017,120
Subtotal	<u>\$ 125,728</u>	<u>\$ 13,916,961</u>	<u>\$ 51,007,291</u>	<u>\$ 28,203,032</u>
Unobligated balance				
Apportioned	\$ 98,427	\$ 1,397,290	\$ 65,967	\$ 11,185,410
Unobligated Balances Not Available	2,109	25,565	792,623	36,401
Total, Status of Budgetary Resources	<u><u>\$ 226,264</u></u>	<u><u>\$ 15,339,816</u></u>	<u><u>\$ 51,865,881</u></u>	<u><u>\$ 39,424,843</u></u>
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:				
Obligated Balance, Net-beginning of period:	\$ 99,094	\$ 5,057,690	\$ 10,003,721	\$ 37,496,560
Obligated Balance transferred, net (+/-)	0	0	0	0
Obligated Balance, net-end of period:				
Accounts Receivable	\$ 0	\$ (2,127)	\$ (313,178)	\$ (389,937)
Unfilled customer order from Federal sources	0	(19,659)	(1,842,209)	142,971
Undelivered Orders	95,085	6,109,572	17,493,978	39,732,271
Accounts Payable	7,658	47,501	466,561	(1,812,407)
OUTLAYS:				
Disbursements	\$ 120,833	\$ 12,462,543	\$ 41,629,728	\$ 26,750,467
Collections	0	(269,635)	(4,399,594)	(1,027,974)
Subtotal	<u>\$ 120,833</u>	<u>\$ 12,192,908</u>	<u>\$ 37,230,134</u>	<u>\$ 25,722,493</u>
Less: Offsetting receipts	0	0	(246,802)	0
Net Outlays	<u><u>\$ 120,833</u></u>	<u><u>\$ 12,192,908</u></u>	<u><u>\$ 36,983,332</u></u>	<u><u>\$ 25,722,493</u></u>

Department of Defense
 Department of the Navy
DISAGGREGATED STATEMENT OF BUDGETARY RESOURCES
 For the years ended September 30, 2003 and 2002
 (\$ in thousands)

	<u>Military Personnel</u>	<u>Military Construction/Family Housing</u>	<u>2003 Combined</u>	<u>2002 Combined</u>
BUDGETARY FINANCING ACCOUNTS				
BUDGETARY RESOURCES				
Budget Authority				
Appropriations Received	\$ 35,955,150	\$ 1,804,617	\$ 122,169,428	\$ 99,561,202
Contract Authority	0	0	739	0
Net transfers (+/-)	230,763	(39,215)	1,662,142	2,676,247
Other	0	0	0	0
Unobligated Balance:				
Beginning of period	127,311	632,051	11,908,983	13,835,828
Net transfers, actual (+/-)	81,691	(40,255)	145,546	51,061
Anticipated Transfers Balances	0	0	0	0
Spending Authority from Offsetting Collections:				
Earned	0	0	0	0
Collected	521,105	514,301	6,792,556	6,489,962
Receivable from Federal sources	(170,474)	(19,390)	(1,211,532)	(263,453)
Change in unfilled customer orders	0	0	0	0
Advances received	0	106	(59,842)	1,286
Without advance from Federal sources	(1,682)	72,808	308,282	186,518
Anticipated for the rest of year, without advances	0	0	0	0
Transfers from trust funds	0	0	0	0
Subtotal	\$ 348,949	\$ 567,825	\$ 5,829,464	\$ 6,414,313
Recoveries of prior year obligations	\$ 957,070	\$ 37,332	\$ 7,009,339	\$ 2,286,834
Temporarily not available pursuant to Public Law	0	0	0	0
Permanently not available	(225,608)	(21,415)	(1,452,574)	(1,399,956)
Total Budgetary Resources	\$ 37,475,326	\$ 2,940,940	\$ 147,273,067	\$ 123,425,529
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred				
Direct	\$ 36,881,447	\$ 1,473,416	\$ 124,497,950	\$ 99,307,751
Reimbursable	416,471	553,485	8,079,881	12,208,795
Subtotal	\$ 37,297,918	\$ 2,026,901	\$ 132,577,831	\$ 111,516,546
Unobligated balance				
Apportioned	\$ 83,776	\$ 866,132	\$ 13,697,001	\$ 10,590,567
Unobligated Balances Not Available	93,632	47,905	998,235	1,318,416
Total, Status of Budgetary Resources	\$ 37,475,326	\$ 2,940,938	\$ 147,273,067	\$ 123,425,529
RELATIONSHIP OF OBLIGATIONS TO OUTLAYS:				
Obligated Balance, Net-beginning of period:	\$ 1,738,394	\$ 1,704,726	\$ 56,100,186	\$ 52,333,850
Obligated Balance transferred, net (+/-)	0	0	0	0
Obligated Balance, net-end of period:				
Accounts Receivable	\$ (99,555)	\$ (93,046)	\$ (897,842)	\$ (2,109,374)
Unfilled customer order from Federal sources	954	(617,533)	(2,335,476)	(2,027,193)
Undelivered Orders	505,517	2,132,674	63,419,000	55,633,755
Accounts Payable	1,693,723	282,078	3,335,212	4,603,000
OUTLAYS:				
Disbursements	\$ 36,150,759	\$ 1,936,704	\$ 119,051,033	\$ 105,540,310
Collections	(521,105)	(514,406)	(6,732,714)	(6,491,249)
Subtotal	\$ 35,629,654	\$ 1,422,298	\$ 112,318,319	\$ 99,049,061
Less: Offsetting receipts	0	0	(246,802)	(213,345)
Net Outlays	\$ 35,629,654	\$ 1,422,298	\$ 112,071,517	\$ 98,835,716





DON GENERAL PROPERTY, PLANT, AND EQUIPMENT

Real Property Deferred Annual Sustainment and Restoration Tables

As of September 30, 2003

(\$ in Millions)

Annual Sustainment F Y 2003			
	Required	Actual	Difference
Navy			
Marine Corps			
Building, Structures, and Utilities	1,857	1,511	346

Annual Deferred Sustainment Trend				
	FY 2000	FY 2001	FY 2002	FY 2003
Navy				
Marine Corps				
Building, Structures, and Utilities	-	501	40	346

Restoration and Modernization Requirements			
	End FY 2002	End FY 2003	Change
Navy			
Marine Corps			
Building, Structures, and Utilities	-	-	-

Narrative Statement:

Navy General Fund Facilities transitioned from Real Property Maintenance to Facility Sustainment in FY 2003 via use of the new OSD Facility Sustainment Model (FSM). This is the second financial statement utilizing this methodology. The methodology in the DoD Financial Management Regulation, Volume 6B, Chapter 12, July 2002 was utilized to calculate the deferred amounts. In FY 2003, facility investments were programmed and budgeted using FSM version 3.0.

The quality of data used in the Facility Sustainment Model continued to undergo quality checks in FY 2003, resulting in a more accurate accounting of deferred sustainment requirements.

Presently, a separate breakout between the Navy and Marine Corps sustainment amounts cannot be provided. Due to this limitation, information in the Real Property Deferred Annual Sustainment and Restoration Tables are presented as overall totals for the Department of the Navy (DON).

The Facility Sustainment Model calculates facility sustainment investment based on the DON property inventory, facility type, key units of measure, geographic location and industry standards. These variables are constantly being examined to reduce errors and eliminate disconnects for unique DON facility requirements.

The DON General Fund has no material amounts of deferred sustainment for General Property, Plant, and Equipment categories of Personal Property, Heritage Assets, or Stewardship Land.

MILITARY EQUIPMENT

Deferred Maintenance Amounts
As of September 30, 2003
(\$ in Thousands)

Major Type	Amount
1. Aircraft	\$ 148,154
2. Ships	49,533
3. Missiles	65,125
4. Combat Vehicles	3,726
5. Other Weapons Systems	<u>139,194</u>
6. Total	\$ 405,732

Narrative Statement:**Aircraft Deferred Maintenance**

There are four sub-categories that comprise aircraft deferred maintenance: airframe rework and maintenance (active and reserve), engine rework and maintenance (active and reserve), component repair and software maintenance. The airframe rework deferred maintenance calculation reflects executable unfunded requirements, which represent aircraft that failed Aircraft Service Period Adjustment (ASPA) or reached fixed Period End Date (PED) at year-end. The engine rework deferred maintenance calculation reflects year-end actual requirements minus actual funded units. Generally, component repair deferred maintenance cost represents the difference between requirement and funding. Aircraft deferred maintenance reflects only executable deferred maintenance. Unexecutable deferred maintenance is not reported in the Exhibit OP-30, nor is it collected.

The Depot maintenance is currently being performed under both the Standard Depot Level Maintenance (SDLM) and Integrated Maintenance Concept (IMC) programs. Currently, the E-2, E-6, F/A-18, H-1, H-53, H-60, P-3, and S-3 aircraft programs have been incorporated under the IMC concept. The IMC concept uses Planned Maintenance Intervals (PMI), performing more frequent depot maintenance, with smaller work packages, reducing out of service time. The goal of this program is to improve readiness while reducing operating and support costs. Commander, Naval Air Systems Command's (COMNAVAIRSYSCOM) Industrial Strategy in the downsizing environment is to maintain only the minimum level of organic capacity, consistent with force levels, that is necessary to sustain peacetime readiness and was fighting surge capability. COMNAVAIRSYSCOM will work in partnership with private industry to make maximum use of industry's production capabilities and for non-CORE related aviation depot level maintenance.

Ship Deferred Maintenance

Deferred Ship Maintenance data was provided by Fleet Type Commanders. Data was collected from the Current Ships' Maintenance Plan (CSMP) database, which captures maintenance actions at all levels (organizational, intermediate, depot) for active and reserve ships. Only depot level deferred maintenance has been provided in this report. This includes maintenance actions that were deferred from actual depot maintenance work packages as well as maintenance that was deferred prior to inclusion in a work package due to either fiscal, operational, or capacity constraints. Although there is a significant amount of deferred maintenance actions, there are no ships that fall into the category of "unacceptable operating condition". Any ship that would be at risk of being in unacceptable operating condition would receive priority for maintenance funding to maintain acceptable operating condition.

Ship deferred maintenance decreased from \$243,615 thousand in FY 2002 to \$49,533 thousand in FY 2003. This is due to the DON's funding a higher percentage of ship maintenance requirements in FY 2003.



**Missile Maintenance**

Four categories are used to determine missile maintenance: missiles, tactical missiles, software maintenance, and other. Deferred maintenance is defined as the difference between the total weapon maintenance requirement as determined by requirements modeling processes and the weapon maintenance that is funded in accordance with the annual budget controls for the Missile Maintenance program. The maintenance requirements model projects the quantity of missiles and missile components per weapon system that are required to be maintained (reworked) annually.

Combat Vehicles

The combat vehicles category is for vehicle overhaul for the active and reserve Marine Corps.

Other Weapons Systems

The "Other Weapons Systems" category is comprised of ordnance, end item maintenance for support equipment, camera equipment, landing aids, calibration equipment, air traffic control equipment, target systems, expeditionary airfield equipment, special weapons, target maintenance, and repair of repairables. Three categories define ordnance maintenance: ordnance maintenance, software maintenance and other. Although the various programs vary in the methodology in defining requirements, all programs define deferred maintenance as the difference between requirements and funding.

Software Maintenance

Software maintenance requirements and deferred maintenance for aircraft, missiles and other equipment are determined using the same methodology and, therefore will not be addressed separately for each Military Equipment Deferred Maintenance reporting categories. Software maintenance includes the operational and system test software that runs in the airborne avionics systems (e.g., mission computer, display computer, radar) and the software that runs the ground based support labs used to perform software sustainment (e.g., compilers, editors, simulation, configuration management). The deferred maintenance reported for the execution year are those requirements below the funding threshold and up to, but not exceeding, the capacity of the Software Support Activity (SSA) in that particular fiscal year. There may be deferred requirements that exceed the capacity of the SSA, but these are not reported in the Exhibit OP-30 for the execution year, but rather identified as an out year requirement.

Schedule, Part A DoD Intra-governmental Asset Balances (\$ Amounts in Thousands)	Treasury Index	Fund Balance with Treasury	Accounts Receivable	Loans Receivable	Investments	Other
Executive Office of the President	11		\$16,430			
Department of Agriculture	12		1,141			
Department of the Interior	14		8,959			
Department of Justice	15		10,173			
Department of Labor	16		71			
Department of State	19		14,207			
Department of the Treasury	20	\$78,414,877	12		\$ 9,801	
Army General Fund	21		12,315			\$ 325
Federal Trade Commission	29		2,839			
Department of Veterans Affairs	36		3			
Government Printing Office	4		189			
General Service Administration	47		239			
Air Force General Fund	57		16,940			6,006
Federal Emergency Management Agency	58		33			
Department of Transportation	69		384			
Small Business Administration	73		4			
Department of Health and Human Services	75		317			
National Aeronautics and Space Administration	80		293			
Department of Housing and Urban Development	86		10,233			
Department of Energy	89		15,023			
US Army Corps of Engineers	96		507			
Other Defense Organizations General Funds	97		148,300			
Other Defense Organizations Working Capital Funds	97-4930		88,138			43,852
Army Working Capital Fund	97-4930.001					95
Navy Working Capital Fund	97-4930.002		145,038			130,165
Air Force Working Capital Fund	97-4930.003		4,974			7,422
The General Fund of the Treasury	99					
Homeland Security			100			
	Totals:	\$78,414,877	\$496,862		\$9,801	\$187,865

Note: Totals might not match the amounts shown on the Principal Statements.





Schedule, Part B DoD Intra-governmental Entity Liabilities (\$ Amounts in Thousands)	Treasury Index	Accounts Payable	Debts/Borrowings From Other Agencies	Other
Department of Labor	16			\$613,067
Department of the Treasury	20			561,277
Army General Fund	21	\$ 48,294		
Office of Personnel Management	24			47,073
Air Force General Fund	57	18,746		
US Army Corps of Engineers	96	2,170		
Other Defense Organizations General Funds	97	13,860		2,228
Other Defense Organizations Working Capital Funds	97-4930	512,262		
Army Working Capital Fund	97-4930.001	8,817		
Navy Working Capital Fund	97-4930.002	420,647		
Air Force Working Capital Fund	97-4930.003	10,240		
The General Fund of the Treasury	99			2,636,268
	Totals:	\$1,035,036	\$0	\$3,859,913

Note: Totals might not match the amounts shown on the Principal Statements.

Schedule, Part C DoD Intra-governmental revenue and related costs (\$ Amounts in Thousands)	Treasury Index	Earned Revenue
Executive Office of the President	11	\$ 19,401
Department of Agriculture	12	311
Department of Commerce	13	481
Department of the Interior	14	658
Department of Justice	15	12,773
Department of Labor	16	204
Department of State	19	7,927
Department of the Treasury	20	30,590
Army General Fund	21	226,067
Nuclear Regulatory Commission	31	738
Department of Veterans Affairs	36	7,156
Government Printing Office	4	1,106
General Service Administration	47	6,338
National Science Foundation	49	41
Air Force General Fund	57	133,437
Federal Emergency Management Agency	58	3,918
Railroad Retirement Board	60	25
Department of Transportation	69	6,698
Small Business Administration	73	10
Department of Health and Human Services	75	230
National Aeronautics and Space Administration	80	6,482
Department of Housing and Urban Development	86	2,019
Department of Energy	89	37
US Army Corps of Engineers	96	836
Other Defense Organizations General Funds	97	1,737,114
Other Defense Organizations Working Capital Funds	97-4930	346,529
Army Working Capital Fund	97-4930.001	4,571
Navy Working Capital Fund	97-4930.002	505,386
Air Force Working Capital Fund	97-4930.003	6,488
The General Fund of the Treasury	99	-
Homeland Security		119,397
	Total:	\$ 3,186,968

Note: Totals might not match the amounts shown on the Principal Statements.





Schedule, Part E DoD Intragovernmental non-exchange revenues (\$ Amounts in Thousands)	Treasury Index	Transfers In	Transfers Out
Air Force General Fund	57	\$ 6,589	
US Army Corps of Engineers	96		\$ 40
Other Defense Organizations General Funds	97	42,352	
Other Defense Organizations Working Capital Funds	97-4930		10,660
Navy Working Capital Fund	97-4930.002	13,526	
	Totals:	\$ 62,467	\$ 10,700

Note: Totals might not match the amounts shown on the Principal Statements.



DEPARTMENT OF THE NAVY

GENERAL FUND OTHER ACCOMPANYING INFORMATION



APPROPRIATIONS, FUNDS, AND ACCOUNTS INCLUDED IN THE PRINCIPAL STATEMENTS

Entity Accounts:

General Funds

- 17X0380 Coastal Defense Augmentation, Navy
- 17 0703 Family Housing Construction, Navy and Marine Corps
- 17 0735 Family Housing, Navy and Marine Corps (Operations and Maintenance)
- 17X0810 Environmental Restoration, Navy
- 17 1105 Military Personnel, Marine Corps
- 17 1106 Operation and Maintenance, Marine Corps
- 17 1107 Operation and Maintenance, Marine Corps Reserve
- 17 1108 Reserve Personnel, Marine Corps
- 17 1109 Procurement, Marine Corps
- 17 1205 Military Construction, Navy
- 17 1235 Military Construction, Naval Reserve
- 17X1236 Payments to Kaho Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
- 17 1319 Research, Development, Test, and Evaluation, Navy
- 17 1405 Reserve Personnel, Navy
- 17 1453 Military Personnel, Navy
- 17 1506 Aircraft Procurement, Navy
- 17 1507 Weapons Procurement, Navy
- 17 1508 Procurement of Ammunition, Navy and Marine Corps
- 17 1611 Shipbuilding and Conversion, Navy
- 17 1804 Operation and Maintenance, Navy
- 17 1806 Operation and Maintenance, Navy Reserve
- 17 1810 Other Procurement, Navy

Revolving funds

- 17 4557 National Defense Sealift Fund, Navy

Trust funds

- 17X8716 Department of the Navy General Gift Fund
- 17X8723 Ship Stores Profits, Navy
- 17X8733 United States Naval Academy General Gift Fund

Special funds

- 17X5095 Wildlife Conservation, etc., Military Reservations, Navy
- 17X5185 Kaho Olawe Island Conveyance, Remediation, and Environmental Restoration Fund, Navy
- 17X5429 Rossmoor Liquidating Trust Settlement Account

Non Entity Accounts:

Special funds (Receipt Accounts)

- 17 3041 Recoveries Under the Foreign Military Sales Program
- 17 3210 General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified

Deposit funds

- 17X6001 Proceeds of Sales of Lost, Abandoned, or Unclaimed Personal Property, Navy
- 17X6002 Personal Funds of Deceased, Mentally Incompetent or Missing Personnel, Navy
- 17X6025 Pay of the Navy, Deposit Fund
- 17X6026 Pay of the Marine Corps

17X6050	Employee Payroll Allotment Account (U.S. Bonds)
17X6075	Withheld Allotment of Compensation for Payment of Employee Organization Dues, Navy
17X6083	Withheld Allotment of Compensation for Charitable Contributions, Navy
17X6134	Amounts Withheld for Civilian Pay Allotments, Navy
17X6275	Withheld State and Local Income Taxes
17X6434	Servicemen's Group Life Insurance Fund, Suspense, Navy
17X6705	Civilian Employees Allotment Account, Navy
17X6706	Commercial Communication Service, Navy
17 6763	Gains and Deficiencies on Exchange Transactions, Navy (fiscal year)
17X6850	Housing Rentals, Navy
17X6875	Suspense, Navy
17X6999	Accounts Payable, Check Issue Underdrafts, Navy



